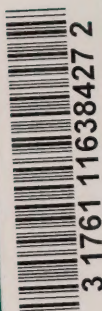


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# **The State of Competition in the Canadian Petroleum Industry**



## **Volume I**

## **Findings, Issues and Remedies**





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# **The State of Competition in the Canadian Petroleum Industry**

Statement of Evidence and Material Submitted to the  
Restrictive Trade Practices Commission in Connection with an  
Inquiry under Section 47 of the Combines Investigation  
Act

relating to

THE EXPLORATION FOR, AND THE IMPORTATION, PRODUCTION,  
PURCHASE, MANUFACTURE, STORAGE, TRANSPORTATION,  
DISTRIBUTION, BARTER, SUPPLY AND SALE OF CRUDE OIL,  
PETROLEUM, REFINED PETROLEUM PRODUCTS AND RELATED  
PRODUCTS

by

Robert J. Bertrand, Q.C.,  
Director of Investigation and Research  
Combines Investigation Act

## **Volume I — Findings, Issues and Remedies**

This is one of a set of seven volumes comprising the Statement of Evidence and Material submitted to the Restrictive Trade Practices Commission in this matter by the Director of Investigation and Research under the Combines Investigation Act. The volumes comprising this Statement include:

- |            |  |
|------------|--|
| Volume I   | — Findings, Issues and Remedies  |
| Volume II  | — The Domestic Sector: An Overview of the Environment,<br>Industry Behaviour and Performance       |
| Volume III | — International Linkages: Canada and the World Petro-<br>leum Market                               |
| Volume IV  | — The Production Sector  |
| Volume V   | — The Refining Sector  |
| Volume VI  | — The Marketing of Gasoline  |
| Volume VII | — Index: Documents, Hearing Transcripts and other Sour-<br>ces Referenced in Volumes II through VI |



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February 27, 1981

Mr. O. G. Stoner,  
Chairman,  
Restrictive Trade Practices Commission,  
359 Kent Street,  
Ottawa, Ontario.  
K1N 8V3

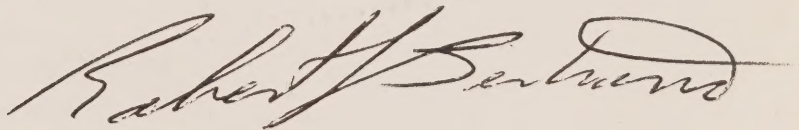
In the Matter of an Inquiry under Section 47 of the Combines Investigation Act Relating to the Exploration for, and the Importation, Production, Purchase, Manufacture, Storage, Transportation, Distribution, Barter, Sale and Supply of Crude Oil, Petroleum, Refined Petroleum Products and Related Products

---

Dear Mr. Stoner:

Pursuant to section 47 of the Combines Investigation Act, I am submitting to you in English and in French, a Statement of Evidence and Material collected in the above inquiry so that, pursuant to the said section, the Restrictive Trade Practices Commission can consider it together with such further evidence or material as you consider advisable and report thereon in writing to the Minister of Consumer and Corporate Affairs.

Yours very truly,

A handwritten signature in dark ink, reading "Robert J. Bertrand". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Robert J. Bertrand, Q.C.,  
Director.





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## PREFACE

This is a Statement — sometimes referred to as a Green Book — containing evidence and material that has been collected and analysed by the Director of Investigation and Research under the *Combines Investigation Act* during the course of an inquiry under Section 47 of the Act for submission to the Restrictive Trade Practices Commission. This section of the Act specifies:

“(1) The Director [of Investigation and Research]

(a) upon his own initiative may, and upon direction from the Minister [of Consumer and Corporate Affairs] or at the instance of the Commission [Restrictive Trade Practices Commission] shall, carry out an inquiry concerning the existence and effect of conditions or practices relating to any product that may be the subject of trade or commerce and which conditions or practices are related to monopolistic situations or restraint of trade, and

(2) It is the duty of the Commission to consider any evidence or material brought before it under subsection (1) together with such further evidence or material as the Commission considers advisable and to report thereon in writing to the Minister, and for the purposes of this Act any such report shall be deemed to be a report under section 19.R.S., c.C-23, s.47; 1974-75-76, C.76, s.25.”

The report of the Commission to the Minister pursuant to Section 19(2) of the Act will review the evidence and material, appraise the effect on the public interest of arrangements and practices disclosed in the evidence and contain recommendations as to the application of remedies provided in the Act or other remedies.

Over the years the Bureau of Competition Policy has received many complaints about practices and conditions in the petroleum industry. A number of these complaints led to formal inquiries, some of which resulted in reports by the Restrictive Trade Practices Commission and prosecutions.<sup>1</sup> As the material in Appendix C shows, these inquiries and reports were generally restricted to the examination of specific practices or situations relating to particular products or within a particular geographic market within Canada. The types of situations that led to these inquiries into the petroleum industry under the *Combines Investigation Act* included refusal to supply, price discrimination, predatory pricing, resale price maintenance, mergers and acquisitions within the industry, and conspiracies to lessen competition. A number of these cases involved the major oil companies, while others also included local dealers and distributors.

---

1. See Appendix C for a list and summary of Restrictive Trade Practices Commission reports dealing with the Canadian petroleum industry and an index of the Annual Reports of the Director of Investigation and Research listing other inquiries under the Act into the Canadian petroleum industry since 1952.

In February 1973 the Consumers' Association of Canada requested the then Director of Investigation and Research, D.H.W. Henry, Q.C., to undertake an inquiry into the petroleum industry under Section 7 of the *Combines Investigation Act*. The Association requested that the Director investigate whether certain price increases for gasoline and fuel oils put into effect by a number of oil companies in January 1973 were the result of a conspiracy among these companies. The application also asked the Director to examine the extent to which vertical integration in the petroleum industry had contributed to higher prices for gasoline and fuel oil products. As well, the application raised concern about the degree of control and disciplinary power held by the integrated petroleum firms at the retail level and whether this had resulted in higher prices for petroleum products.

In August 1973 the then acting Director, Mr. J.J. Quinlan, Q.C., commenced a formal inquiry pursuant to Section 8 of the Act relating to the "Production, Manufacture, Purchase, Barter, Sale, Storage, Rental, Transportation and Supply of Crude Oil, Petroleum, Refined Petroleum Products and Related Products." This inquiry was given broad scope to conduct an investigation on a national basis and to examine conditions and practices affecting competition at all levels of the industry.

In August and September 1973 the premises of eleven petroleum companies located across Canada were searched, pursuant to Section 10 of the Act, and some 135,000 documents were seized. In December 1974 a second search was conducted of the offices of ten petroleum companies located in western Canada.<sup>1</sup>

In the summer of 1978 further searches involving the premises of Petrofina Canada Ltd. were undertaken. In September 1978 Petrofina challenged the powers of the Restrictive Trade Practices Commission and of the Director of Investigation and Research with respect to entry of premises and examination of documents pursuant to Section 10 of the Act. On November 23, 1979, the Federal Court of Appeal denied Petrofina's challenge.<sup>2</sup> On March 3, 1980, Petrofina was granted leave to appeal to the Supreme Court of Canada. No documentary material that is subject to this appeal is included in this Statement. However, should the Supreme Court uphold the decision of the Federal Court of Appeal, the Director intends to supply the Commission with documentary evidence from Petrofina Canada Ltd., certain of which has been deleted from this submission.

---

1. See Appendix D for a list of the premises that were searched and the documents that were seized.

2. *Petrofina Canada Ltd. v. The Restrictive Trade Practices Commission et al* [1979] 2 F.C. 501, 26 N.R. 536.

*Petrofina Canada Ltd. v. The Restrictive Trade Practices Commission et al* (1979) 107 D.L.R. (3d) 319; (1979) 46 C.P.R. (2d) 1.



In 1975 hearings were held before the Restrictive Trade Practices Commission and over thirty witnesses gave oral evidence pursuant to Section 17 of the Act. At hearings held in Toronto, Ontario over a three week period in the spring of 1975 executives of the major oil companies gave oral evidence with respect to the marketing and international sectors of the industry. In the fall of 1975 another two weeks of hearings dealing with the production, pricing and distribution of condensate and asphalt were conducted in Calgary, Alberta. In January 1976 an order under Section 9 of the Act for a written return of information was sent to over ninety petroleum and pipeline companies. In addition, extensive interviews were conducted with gasoline and fuel oil dealers representing both the branded and independent reseller segments of the industry. Other information relevant to the petroleum industry was obtained from the Bureau's records and a wide range of public sources. All of this evidence and material form the basis of this Statement.

After careful consideration, the Director concluded that the monopolistic conditions and practices in restraint of trade that he found are of such importance that they should be considered by the Restrictive Trade Practices Commission within the broad context of a Section 47 inquiry. Therefore on February 27, 1981 the Director notified the Commission that he had instituted

“an Inquiry under Section 47 of the Combines Investigation Act relating to the Exploration for, and the Importation, Production, Purchase, Manufacture, Storage, Transportation, Distribution, Barter, Supply and Sale of Crude Oil, Petroleum, Refined Petroleum Products and Related Products.”

In the Director's opinion a Section 47 inquiry, at this time when Canada is entering a new era in energy policy, will have a significant role in placing the importance of competition in the petroleum industry in the forefront of public debate. Moreover, the Director's experience with the petroleum industry right up to the present has confirmed that the issues that were important when the petroleum inquiry commenced in 1973 remain important today.



### *Acknowledgements*

This submission was prepared with the active assistance of many persons having various professional and technical backgrounds. During the course of the work, some staff members moved on in their careers and others joined the group in completing the submission. Though not all of the persons who have supported this project can be acknowledged by name, to a significant degree, all those persons on the Director's staff since 1973 deserve some share of the recognition for their help in furthering the work of the inquiry, particularly the many officers who assisted in collecting documentary material.

Dr. John Baldwin of the Queen's University Economics Department has, since joining the group as a consultant in 1974, played a leading role in preparing this submission. His expertise together with his energetic intellectual and professional participation in all stages of the work have left an indelible imprint on the Director's submission. His principal colleagues throughout most of the period were Jim Bocking and Don Mercer. Together with Penny Gotzaman, Cal Gundy and Keith Saldanha, this key group of six were mainly responsible for having collected and analyzed the material in this submission.

Others who have been actively engaged in many phases of the work, include Paul Comision, Millie Lachance, Debbie Martineau and Graydon Smith. Those who have more recently, but no less significantly contributed to producing this submission are Hugues Leduc, Dave McAllister, Anthony Norfolk, Rob Sutherland-Brown and Gene Williams.

In the latter stages, Jocelyn Chapleau, Martin Crossman, Peggy Dobbing, Mike Doyle, Gerry Friesen, David Lambe, Monique Leclair and Maggie Roussos aided in the production phase of this submission. The volumes were translated and revised in French by groups under the direction of Anne Bordé, P.-A. Gravelle, and Aurèle Motard. All French volumes were edited by Professor J.-C. Gémard and the English version of Volume I by Diane Nelles. For the Canadian Government Printing Office, Keith Sutherland oversaw the planning, production and printing of all volumes.

The petroleum inquiry commenced in 1973 under the direction of Dennis DeMelto and since 1976 has been undertaken by officers in the Resources Branch of the Bureau of Competition Policy and directed by George Lerner.





## *Structure of the Director's Statement*

This statement of evidence and material, which is entitled *The State of Competition in the Canadian Petroleum Industry*, is comprised of seven volumes:

Volume I, *Findings, Issues and Remedies*, describes the structure of the Canadian petroleum industry, the history of the industry prior to 1973, and discusses events and trends in the industry in the post-1973 period. It also contains a summary of the Director's findings together with the Director's views on the issues arising out of these findings and possible remedies that the Commission may wish to consider.

Volume II, *The Domestic Sector: An Overview of the Environment, Industry Behaviour, and Performance*, examines international and domestic factors affecting the price of crude oil in Canada. In particular, it shows how these factors enhanced the price of crude oil and refined products to the detriment of the public. On the international side, events and decisions in the United States and the Middle East that affected the Canadian market are reviewed. In the domestic area, the National Oil Policy and its impact on competition and Canadian petroleum prices are described.

Volume III, *International Linkages: Canada and the World Petroleum Market*, noting that eastern Canadian markets have relied on imported oil, reports on the unrealistic level of imported crude oil prices in Canada that resulted from the adoption by the multinational petroleum companies of parallel high transfer pricing policies for their Canadian subsidiaries. It also explores the motives behind and the mechanisms employed to achieve high imported crude oil price levels and examines the effect that these high crude oil prices had in enhancing prices for refined products in downstream markets.

Volume IV, *The Production Sector*, examines the domestic production sector. It outlines the way certain arrangements created a mechanism that was used to set the price of various crude oil types. It also examines the effect of ownership and control of pipelines in restricting competition.

Volume V, *The Refining Sector*, examines the structure of the industry in terms of the control of refining capacity held by the major integrated firms and the linkages between these firms at this level that restricted competition. It also examines how the policies of these integrated firms with respect to sales of refined products to independent gasoline and fuel oil resellers were used to restrict price competition in the marketing sector.

Volume VI, *The Marketing of Gasoline*, documents the behaviour of the major integrated petroleum companies in restricting competition emanating from the efficient independent reseller sector. In doing so the volume focuses upon the nature of competition between the majors themselves and appraises the performance of this sector of the industry. The material demonstrates that the majors generally avoided price competition among themselves; but, when faced

with price competition from lower cost marketers the majors employed various exclusionary or disciplinary practices against these lower cost marketers. The majors were able to maintain retail-wholesale margins. The practices employed by the majors in the marketing sector enhanced monopolistic conditions at other levels of this vertically-integrated industry.

Volume VII, *Index*, contains an index of all documents, hearing transcripts, and other sources referred in Volumes II through VI.



### *Summary of Issues and Recommendations*

The issues that are raised by this submission point to the need for remedies both of a general and of a specific nature. In the general context of competition legislation, the practices and conditions in the petroleum industry disclosed in this submission suggest the need for revisions to the *Combines Investigation Act*. In particular, amendments are required to improve the existing legislation with respect to predatory or exclusionary behaviour, parallel activities that promote monopolization, and the use by multinational firms of high transfer prices to exploit Canadian consumers.

It is recommended the marketing sector be restructured by divestiture of certain marketing assets of the majors. In addition, other remedies should be directed towards providing supply to the independent reseller sector — possibly by administrative actions and certainly by an expanded role for Petro-Canada. Finally, the present state of competition in the Canadian petroleum industry emphasizes the need for more effective regulation of the pipeline and refining sectors of the industry.

During the period under review, 1958-73, the monopolistic practices adopted by the four major petroleum companies — Imperial Oil Limited, Shell Canada Limited, Gulf Canada Limited and Texaco Canada Limited — varied from one sector to the next in this vertically integrated industry. Material on the international sector (Volume III) demonstrates that high prices were extracted from the Canadian consumer because most of the majors followed the same strategy of constraining the competitiveness of their Canadian subsidiaries by charging them higher transfer prices for their imports of crude oil than those prevailing in the world market. This practice flowed from the disciplined, tightly-knit oligopoly of the foreign parent companies.

To deal with the high transfer price problem, the Director recommends that:

#### *Recommendation # 1:*

legislation be enacted to prohibit the payment of artificially high transfer prices by Canadian companies to foreign parent or affiliated companies where such practices adversely affect the Canadian consumer.

Effective legislation in this area will require specific provisions to obtain information from parties located outside of Canada. Accordingly the Director recommends that:

#### *Recommendation # 2:*

legislation be enacted to grant the appropriate authorities the necessary power to obtain information that is stored abroad by the parent or affiliated company of a Canadian company, where that information relates to activities affecting competition in Canada.

Material on the domestic production sector (Volume IV), shows that competition was restrained by the pricing mechanisms that were adopted. These mechanisms, though tied to the need for shippers to batch crude oil streams, were also used to harmonize divergent company positions when jointly setting crude prices. The ability of these firms to jointly set prices was greatly facilitated by the major integrated petroleum companies' ownership and control of trunk pipelines.

To remedy this situation, the Director recommends that:

*Recommendation # 3:*

All petroleum pipelines under federal jurisdiction be actively regulated,

- (a) to ensure that anyone seeking to ship special or batched streams of crude oil receive non-discriminatory access to the pipelines, and
- (b) in a fashion that ensures that communications between crude oil shippers regarding pipeline operations are reduced to a minimum.

*Recommendation # 4:*

legislation be enacted requiring all major integrated oil companies to divest their holdings in all existing pipelines which are subject to federal jurisdiction, and that no major oil company be permitted to acquire a controlling interest in any new such pipeline.

In order to improve access to Alberta crude oil, the Director recommends that:

*Recommendation # 5:*

the Alberta Petroleum Marketing Commission modify its limitation on the number of eligible purchasers of Alberta crude oil.

The material on the refining sector (Volume V) shows that the refinery policies of the major integrated companies were directed towards the restraint of competition both from other refiners and potential entrants. Refinery supply agreements were the key facilitating mechanism for bringing refinery interests together. The majors' dominance of the refining sector enabled them, in the absence of access by independents to foreign product, to control both the volume of product supplied to and the price paid for product by non-integrated independent resellers.

*Recommendation # 6:*

legislation be enacted requiring that all refiners operating in Canada obtain approval of the National Energy Board for all refinery supply agreements affecting inter-provincial and international trade and exchange. Before approving such agreements the Board must consult with the Minister of Consumer and Corporate Affairs as to the likely effect the agreements may have on competition.

### *Recommendation # 7:*

legislation be enacted to expand section 31.2 of the *Combines Investigation Act* to provide for the issuance of interim orders for supply, at usual trade terms, pending final disposition of an application for an order to supply pursuant to section 31.2.

Material on marketing (Volume VI) demonstrates that parallel exclusionary policies were followed for more than fifteen years by the major integrated companies in the distribution of gasoline. When non-integrated firms offered little competition, each major established high wholesale/retail margins, choosing generally to compete among themselves only with respect to areas other than price. When non-integrated firms offered price competition, the majors adopted similar exclusionary practices aimed at disciplining these independent marketers and restraining or eliminating competition from this source. The common purpose and intent, the mutuality of interest, and the knowledge with which these exclusionary practices were designed and implemented characterizes a degree of co-ordination that resembles a shared or joint monopoly.

To reduce the potential for firms to pursue restrictive joint-monopolization practices, the Director recommends that:

### *Recommendation # 8:*

the *Combines Investigation Act* be amended to prohibit exclusionary practices adopted by a dominant firm, or two or more firms that are part of a group of firms that are dominant and to provide for orders to be made requiring that such firms divest certain assets.

To deal with the competition problems existing today in the petroleum industry the Director recommends that:

### *Recommendation # 9:*

legislation be enacted to foster competition in the marketing of petroleum products with the objective of increasing the independent reseller sector to the point where that sector markets at least one half the total gasoline and heating oil product sold in Canada, by;

- (a) requiring each existing integrated refiner of gasoline and heating oil to divest certain distribution assets or facilities in a manner which will ensure that, at the end of a five year period, the refiner is selling an equal amount of these products to independent resellers as it sells through its own remaining distribution network. For the purposes of these recommendations an independent reseller is defined as a distributor of gasoline and/or heating oil, with the following characteristics:
  - (i) the refiner does not directly or indirectly control the distributor.
  - (ii) ownership of the product is transferred to the distributor at a wholesale price that is determined independently of the retail price established by the distributor.



- (b) requiring that any new refiner shall not sell more of its heating oil and gasoline output through its own distribution network than it supplies to independent resellers.
- (c) assuring that supplies of gasoline and heating oil at non-discriminatory prices are available to independent resellers.

*Recommendation # 10:*

the government should provide financial assistance to service station dealers to acquire the divested distribution facilities of the refiners.

*Recommendation # 11:*

a major responsibility of Petro-Canada should be the expansion of its refinery operations in order to act as a supplier to independent resellers, whether or not the latter sell under the Petro-Canada logo.

The material and evidence contained in this submission indicates that, in the past, when the government intervened both directly and by regulation, in the petroleum industry, insufficient attention was directed to the effects such interventions had on competition. Given the vertically integrated nature of the industry and the dominance by a small group of firms, government intervention in fact facilitated the industry's exploitation of the Canadian consumer. Government intervention should be implemented in a fashion that reduces oligopolistic power and encourages competition. In light of the increasing role of government in the energy sector generally and the petroleum industry in particular, the Director recommends that:

*Recommendation # 12:*

greater attention should be given to the effect on competition of regulatory activity by government agencies. When alternative policies are available to meet government objectives, those policies which least restrict competition should be chosen. An analysis of the impact on competition of any policy should accompany all major regulatory proposals.

## PART A

### THE CANADIAN PETROLEUM INDUSTRY

#### 1. *Introduction*

The Canadian petroleum industry may be considered in the following stages: importation, production, transportation, refining, distribution, and marketing. This submission examines all of the stages of the industry.

Past studies have viewed the Canadian petroleum industry from various perspectives that differ from this report either in terms of their point of view or their comprehensiveness. The Borden Royal Commission on Energy studied the development of energy and trade policy, but it generally ignored the importance of competition policy in furthering government objectives.<sup>1</sup> Other studies have examined the plight of gasoline station dealers and independent distributors, but they focused, sometimes exclusively, on the marketing sector.<sup>2</sup> In contrast to these earlier studies, this submission provides a comprehensive evaluation of the Canadian industry's structure, conduct, and performance. This submission describes how the multinational petroleum companies that dominate the Canadian industry have used various restrictive practices to develop, protect, and exploit their monopolistic situation in Canada. Recent changes in both Canadian and world energy markets have increased the problems resulting from inadequate competition in the Canadian petroleum industry.

There are a number of parallels between the Canadian petroleum industry and the industries in the United States and other countries. Like many of its international counterparts, the industry in Canada is composed primarily of affiliates of giant multinational enterprises that are active at most stages of the industry. Many studies have emphasized the monopolistic powers that these companies have enjoyed in the world market.<sup>3</sup> Some studies have outlined how this power, first established prior to the Second World War, was gradually eroded in the period up to 1973 and how competition developed in some European markets.<sup>4</sup>

The petroleum industry in Canada has, however, been even less competitive than its counterparts elsewhere. This was partially the result of its domination by a single company, Imperial Oil Limited. Although Gulf Oil Canada Limited, Shell Canada Limited, and Texaco Canada Limited have all risen to some prominence in the postwar period, industry participants concede that Imperial has been the dominant petroleum company in Canada.<sup>5</sup> In addition, the extent of the combined market share of the four major firms in the refining and distribution of petroleum products in Canada has been large when compared with the level of concentration in the United States. During the 1970s Imperial, Shell, Gulf and Texaco held 35 percent of the Canadian crude production sector, compared with a 27 percent share held by the four largest

producers in the United States. These same companies controlled 64 percent of Canadian refining capacity in 1979 and 56 percent of the retail outlets in 1980, compared with a four largest firm share of only 31 percent of refining capacity and 30 percent of the retail market in the United States in 1979 and 1975 respectively.<sup>6</sup>

Other conditions surrounding the petroleum industry in Canada have been more conducive to the emergence of a monopolistic situation than they were elsewhere. Imperial Oil controlled the major east-west trunk pipeline in Canada. The exercise of this control by Imperial, together with the high level of concentration in both the refining and marketing sectors, have reduced the opportunities for others to enter into the Canadian industry and have limited the number of viable rivals at any stage of the industry. By contrast, entry into the American industry appears to have been easier. With production less concentrated, with pipeline competition more intense, and with the existence of imported crude and products flowing into the country through many alternative ports of entry, potential entrants have been able to draw on more sources of crude than in Canada. As a result, a number of smaller U.S. firms have succeeded in building integrated companies that refine and distribute petroleum products in competition with the majors.<sup>7</sup>

Competition in the Canadian petroleum industry has been influenced by events in the rest of the world. The Canadian industry has been influenced by the availability of imported crude oil and petroleum products. The pricing of crude oil imports into Canada has also been influenced by Canadian subsidiaries of foreign multinational petroleum companies. In addition, Canadian crude oil prices have been affected by events in the United States that have impacted upon Canadian exports to U.S. refineries.

The existence of both imports to and exports from the Canadian market for petroleum might suggest that the market power exercised by the majors would have been severely limited. This was not the case. The full benefits of world competition in petroleum markets have not been felt in Canada. The market power held by the majors, particularly their control over the importation of crude oil into Canada, has prevented this from occurring.

Canadian petroleum companies derived their power from their parents' dominant position in the world industry, which was itself characterized by less than full and open competition. Between the two world wars an international cartel linked Anglo-Persian (now British Petroleum), Standard Oil of New Jersey (now Exxon), and Royal/Dutch Shell.<sup>8</sup> By 1932 this three-firm cartel had expanded to include all but one of the dominant multinational petroleum firms popularly known as the "Seven Sisters"—Standard Oil of New Jersey (Exxon), Mobil, Standard Oil of California (Socal), Texaco, Gulf, the Shell group, and British Petroleum. At that time each member's market share in each marketing region of the world, except the United States, was fixed at its respective 1928 levels.<sup>9</sup>



In the postwar period, numerous factors contributed to a decline in the effectiveness of the cartel. In turn, this led to the weakening of oil prices on world markets — a process that began in 1957 and continued until the early 1970s.<sup>10</sup> New sources of supply were developed, Soviet exports to Europe were increased, government-owned national oil companies equipped to purchase and refine crude oil and market petroleum products were established, and the international operations of mainly U.S.-based vertically integrated petroleum companies not party to the original cartel were expanded. These events led to a diminution in the power of the oil companies.<sup>11</sup> Nevertheless their power was not eliminated. Continued high levels of concentration meant that the Seven Sisters still had some potential to exploit certain downstream markets — despite the disappearance of the formal cartel arrangements.

The Seven Sister's weakening grip on world market prices and the resulting decline in these prices led some national governments, usually in response to pressure from their domestic oil producers or other energy producers, to intervene more directly in petroleum markets. For example, the U.S. government responded in 1959 by imposing mandatory import quotas, thereby successfully holding U.S. crude oil prices above the declining prices of crude oil in world markets.<sup>12</sup> In 1961 Canada adopted an informal policy that came to be known as the National Oil Policy.<sup>13</sup>

The National Oil Policy was central to the evolution and maintenance of two distinct Canadian markets — one served by domestic crude and the other by foreign crude. To implement this policy an imaginary north-south line, known as the National Oil Policy Line, was drawn running between the Ottawa Valley and Kingston. The multinationals, to a certain extent, encouraged the development of this government policy.<sup>14</sup> As outlined in Volume II, the National Oil Policy increased the market power held by the majors to enhance domestic crude prices and maintain “unrealistic” transfer prices for crude oil by substantially isolating the Canadian market from declining world prices.

This submission documents the mechanisms used by the four national major oil companies to reduce competition and to extract high prices from Canadian consumers both east and west of the National Oil Policy Line. Volume III, dealing with the linkage between Canada and the international sector, outlines how the major importers of crude successfully raised the price of imported crude oil above world levels and subsequently enhanced the prices of petroleum products sold in Quebec and the Maritimes.

Volume IV, on the production sector, outlines how the majors, led by Imperial, controlled domestic production. In addition it shows how the monopolistic position and practices of Interprovincial Pipe Line Limited led to enhanced crude oil prices in Ontario.

Volume V, on the refining sector, reveals that the majors followed a common “industry refinery policy” that linked together what would otherwise

have been separate companies. The majors also followed a common policy of restricting the supply of gasoline to marketers capable of threatening the retail price structure.<sup>15</sup>

Control of wholesale distribution at the refinery level was only one instrument petroleum companies utilized to prevent the erosion of retail prices and to solidify their hold on the retail distribution network. On the retail side, the majors used a number of predatory practices to discipline the price-competitive independent marketers and, thereby, to maintain high retail prices. These marketing practices, which are described in Volume VI, were actively pursued during the period of the National Oil Policy. Similar practices had been used earlier and there are indications that they continue to persist.

While this submission covers all sectors of the industry, the monopolistic practices used in the marketing sector most damaged the public interest. These marketing practices were meant to prevent more efficient, lower cost competitors from expanding and from passing on the benefits of lower prices to consumers. An important means of entry into the Canadian petroleum industry has been through the marketing sector. If the majors had not been permitted to discipline independent marketers, to restrain entry, and to restrict expansion, then the arrangements in other sectors that contributed to the creation or enhancement of their monopolistic control might not have been sustainable in the long run.

The majors adopted restrictive trade practices at the retail level in order to contain the growth of independent marketers who threatened their dominant position in Ontario and Quebec. The Ontario independents posed this threat, in part, because of their ability to obtain lower cost petroleum products in Quebec and to move these products across the National Oil Policy Line. Imports into Ontario continued until 1970 when the National Energy Board licensed all imports and passed regulations outlawing unauthorized movements of petroleum products across the line.<sup>16</sup> In Quebec, there was greater access to offshore products and independents had an alternative source of supply.

The importance to the resellers of the alternative source of supply that imported product provided cannot be understated. Without this alternative source of supply independent resellers are wholly reliant upon domestic refiners for supplies and their effectiveness as competitors may be suppressed. When an alternative supply source is not available, domestic refiners are in a position to control the independents' supply costs and the volume of products available to them. Succeeding volumes demonstrate that when alternative supply sources dried up for the independent marketers in the early 1970s, the majors used their monopolistic position in the domestic refining sector to increase the independents' wholesale costs. Simultaneously the majors used fighting brands and other programs to decrease retail prices in selected areas and to draw volume away from the independents. The effect of having to pay higher wholesale prices and

at the same time meet increased price competition from the majors reduced or “squeezed” the profit margin that the independents required to stay in business. Variants of these policies were used by the majors throughout the period to perpetuate their high-cost, high-priced inefficient distribution network.

While imported product provided the importers with a supply source outside of the control of the majors, it also gave them a slight advantage in product costs because of the artificially high transfer prices used by the majors for crude imports. Notwithstanding the price advantage attached to acquiring offshore products or transferring products across the National Oil Policy Line into Ontario, the independent resellers’ challenge to the majors was not primarily the result of lower supply prices. Their primary threat to the majors lay in their greater efficiency at distributing and marketing petroleum products.

Although their supply cost advantage at times amounted to as much as 2.5 cents per gallon, some efficient independent gasoline marketers were able to reduce their wholesale and retail operating costs to as much as 14 cents per gallon below the majors’ costs.<sup>17</sup> Lower operating costs achieved through the more efficient distribution methods far outweighed lower supply costs as a factor in the independents’ success. Compared to the independents, the majors operated an inefficient and costly distribution system.

The majors have operated inefficient and excessively costly networks of gasoline outlets for some time. As early as 1936 the Tariff Board concluded that:

“Instead of buying prices being based on production costs as they are in almost every other industry, in the oil industry the market structure is built from the top downwards. The wide marketing margins have encouraged the building of more service stations which have resulted in less volume per station and higher costs.

Most of the Canadian companies have sacrificed marketing economics and efficiency in the race for gallonage.”<sup>18</sup>

Estimates by four provincial commissions of service station overbuilding show that excess capacity in gasoline marketing ranged from 40 percent to 70 percent.<sup>19</sup>

A direct estimate of the extra cost imposed upon gasoline consumers by the inefficient distribution system can be made, if the independents’ lower costs can be said to represent the competitive cost of supplying gasoline. A conservative estimate of the cost difference between the costs of the majors and the independents is approximately 6 cents per gallon. This estimated cost differential is significantly lower than that reported by some of the companies.<sup>20</sup> The effects of this 6 cent overcharge can be appreciated when compared with the pre-tax wholesale price of gasoline which throughout most of the period was about 10 cents per gallon. The “extra” distribution costs were, therefore, about 60 percent of the actual refinery price of gasoline. The annual cost to Canadian consumers as a result of this inefficiency was substantial, amounting to approxi-



mately 325 million dollars on average for each year between 1958 and 1973, when measured in 1980 dollars. The total cost over the period was 5.2 billion 1980 dollars.\*

The lack of sufficient competition in the Canadian petroleum industry has imposed additional costs on Canadian consumers. The largest, and most easily measurable, is the higher price paid by Canadians for all petroleum products, including both heating oil and gasoline, as a result of the artificial transfer prices Canadian subsidiaries of the multinational oil companies paid for imports of crude oil. This amounted to 3.2 billion dollars in 1980 terms over the period from 1958 to 1970 and averaged 246 million 1980 dollars each year over the thirteen-year period.

Another cost of the monopolistic situation arose from the extra expense incurred in importing petroleum products. Because domestically refined petroleum products sold at enhanced prices, some importers could afford to pay duties and extra transport costs that otherwise would not have been necessary. These costs are estimated to have totalled 600 million dollars in 1980 terms over the 1958-73 period.

In addition, in those areas where refineries were supplied with domestic crude oil, Canadian consumers paid higher than prevailing world prices. In Ontario alone consumers paid an average of 206 million dollars per year in 1980 terms in excess of what would have been paid had arm's-length world prices prevailed from 1958 to 1972. For the whole period, this amounts to 3.1 billion dollars in 1980 terms. A more detailed analysis including other provinces would make this number even larger.<sup>21</sup> Finally, a less important source of the added expense was the excessive rate of profit that were earned by some pipeline companies, reaching as high as 250 percent.<sup>22</sup>

As Table 1 indicates, the combined cost to Canadians from the unrealistically high transfer prices on imports, the enhancement of crude prices in Ontario, and the excessive distribution cost levels incurred in the marketing of gasoline, is enormous. If the costs incurred from 1958 to 1973 are converted to 1980 dollars the total of all these costs is 12.1 billion dollars. However, summing costs over time without taking into account when those costs were incurred is recognized as being an inappropriate method of comparing costs over time. The more appropriate method is to calculate what is referred to as the present value of the losses incurred. On this basis, the costs of the monopolistic situation quantified above, as of January 1, 1981, amounted to 89.2 *billion dollars*. Statistics Canada estimates that there were approximately 6 million families living in Canada in 1980. Hence, the additional costs to Canadians averaged almost \$15,000 per family.

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\* The detailed calculations for the estimates of the excess costs paid by Canadian petroleum product users are presented in Appendix A to Volume I.

TABLE 1

ESTIMATE OF EXCESS COST TO CANADIANS OF PETROLEUM  
INDUSTRY PERFORMANCE, BY PROVINCE  
(Billions of Dollars)

	<i>Simple Total in 1980 Dollars</i>	<i>Present Values in 1980 Dollars</i>
1. Inefficient Gasoline Distribution System	5.2	34.3
2. Import Overcharge For Crude	3.2	28.2
3. Import Overcharge For Product	.6	4.1
4. Excess Cost of Domestic Crude In Ontario	3.1	22.6
Total	12.1	89.2

Source: See Appendix A, Volume I.

In the 1958 to 1973 period, the majors consistently used monopolistic practices to restrict competition from the independent sector and to impose the billions of dollars in excess costs on Canadians. Conditions favouring the strengthening and maintenance of the majors' monopolistic control emerged in 1974 when the National Oil Policy gave way to the Import Compensation Program, part of which subsidized crude imports more heavily than product imports. In protecting domestic refiners this program adversely affected competition in the industry. The high level of protection granted to the industry along with actions of the majors that squeezed the independents' margins eliminated nearly all gasoline and heating oil imports, thereby removing the critical alternative source of supply from the independent resellers.<sup>23</sup> In addition, the larger marine terminal operators who had previously imported petroleum products both for resale to other distributors and to supply their own marketing networks were eliminated as importers.<sup>24</sup> Although these marine terminal operators have now reorganized and become independent distributors relying only on domestic supply, their share of the market has declined. The share of other independent, non-refinery associated distributors of petroleum products has also fallen, reducing competition in the market.

The federal government recognized that the protection against imported products implicit in the Import Compensation Program was a potential threat to competition in the industry and enacted the Petroleum Administration Act in 1975 to control some aspects of the oil companies' behaviour.<sup>25</sup> The Act has allowed the government some influence over wholesale and retail prices of products produced from imported crudes. This legislation contains a procedure to ensure that oil companies receiving import compensation pass the subsidy on in the form of lower prices to both end users and resellers of petroleum products.

Unfortunately, the legislation has not protected the independent resellers as was intended. Successive Ministers of Energy, Mines and Resources

Canada (EMR) have acknowledged this failing in the program and have repeatedly warned the refiners of serious consequences of continuing to squeeze margins in the independent marketing sector.<sup>26</sup>

The establishment of Petro-Canada in 1976 marked another major change in the competitive environment faced by the Canadian petroleum industry.<sup>27</sup> Although its full potential has yet to be realized, with the establishment of Petro-Canada, Canada joined the ranks of those countries which had established government-owned oil companies.<sup>28</sup> As in these other countries, one of the reasons stated for the formation of Petro-Canada was to provide the government with a "window" on the petroleum industry. Although Petro-Canada's mandate is directed towards the broader concerns of energy policy, it may in the future have a role as a source of supply for firms that compete with the majors in distributing petroleum products. Such a policy would undoubtedly increase competition in the retail market.

In its National Energy Policy statement released in October 1980, the federal government made an explicit commitment to support competition in the petroleum industry:

"Competition is the lifeblood of the industry, and the consumer's best protection... Nor does the Government intend to encourage monopoly in the public sector of the industry."<sup>29</sup>

Enhancing competition will not be easy in an industry characterized by high concentration, vertical integration, multinational subsidiaries, increasing government regulation and ownership, and significant shifts in supply and demand patterns. The development of policies to improve the competitive process requires an understanding of the development of the existing monopolistic situation in the petroleum industry and the associated performance of the refining, distribution, and pipeline transportation sectors. The analysis presented in this submission regarding the industry's structure, conduct, and performance will contribute to the evolution of public policy in the energy sector.

The material being submitted to the Restrictive Trade Practices Commission was largely collected in 1973. Thus the question arises whether the industry has changed since that date in a fashion which makes the assessment of past behaviour irrelevant to public policy decisions. While recent changes in the international environment affecting the Canadian petroleum industry and in government energy policy have occurred, the structural problems in the industry remain unchanged. In addition the consequences of that structure for the industry's behaviour and performance, as documented in this submission, are more important now than they were a decade ago.

Some changes have occurred in the distribution sector. In particular, there has been a trend to fewer gasoline stations and average volumes per station have increased. However, the dominance of the majors is greater today than at the beginning of the 1970s. As a result there is little reason to suggest



that consumers can count on benefiting from lower distribution costs. The various disciplinary practices that have been used in the past to maintain high wholesale-retail margins are still available to the majors. In addition, the independent resellers — the dynamic element that might provide the competition needed to keep costs and prices down — are more at the mercy of the majors for their supply of gasoline and other products than ever before. There is, therefore, a need to safeguard competition in the face of the dramatic changes that have occurred and that will continue during the next decade.

Government initiatives will influence some of the changes in the environment that will govern the industry's performance over the next decade. The imperatives of the energy situation dictate a regulatory umbrella over the energy sector for some time to come. Competition legislation provides one of the regulatory instruments available to the government. This submission points to the need for specific remedial measures designed to increase competition in Canadian petroleum markets. The material submitted documents the need for a strengthened Competition Act in order to prevent the abuse of a monopolistic situation. This submission also contains recommendations regarding specific remedies which in the Director's opinion are necessary to improve the state of competition in the Canadian petroleum industry.

## Notes

1. Canada, Royal Commission on Energy (Borden Commission), 1958-1959.
2. The Restrictive Trade Practices Commission has published several reports on the petroleum industry over the past twenty years including *Report Concerning Alleged Attempts at Resale Price Maintenance in the Distribution and Sale of Gasoline in the Toronto Area (Alleged Price Discrimination — Texaco Canada Limited)* 1961, RTPC No. 12; *Report Concerning the Distribution and Sale of Gasoline in the Toronto Area (Alleged Price Discrimination — Supertest Petroleum Corporation, Limited)*, 1961, RTPC No. 13; *Report Concerning the Distribution and Sale of Gasoline in the Toronto Area (Alleged Price Discrimination — The British American Oil Company Limited)*, 1961, RTPC No. 14; *Report on an Inquiry into the Distribution and Sale of Automotive Oils, Greases, Anti-Freeze, Additives, Tires, Batteries, Accessories and Related Products*, 1962, RTPC No. 18; *North Star and Shell Gasoline Consignment Plans*, 1966, RTPC No. 40; and *Prices of Gasoline Sudbury*, 1969, RTPC No. 48. Recent provincial inquiries into petroleum matters include *Gasoline Marketing in the Context of the Oil Industry* (Alberta Gasoline Marketing Enquiry), Province of Alberta, December 1968; *Gasoline Marketing Study*, (Nova Scotia Study) Dalhousie University, March 1976; *Report on Matters Concerning Gasoline Marketing in British Columbia*, British Columbia Energy Commission, December 16, 1975, and *Ontario Royal Commission on Petroleum Products Pricing*, Province of Ontario, 1975-76.
3. J.M. Blair, *The Control of Oil* (New York, 1976); A. Sampson, *The Seven Sisters* (New York, 1975); and Federal Trade Commission, *The International Petroleum Cartel*, Staff Report to the Federal Trade Commission submitted to the Subcommittee on Monopoly of the Select Committee on Small Business, 82d Cong., 2d sess. (Committee Print No. 6, 1952).
4. M.A. Adelman, *The World Petroleum Market* (Baltimore, 1972) and N.H. Jacoby, *Multinational Oil* (New York, 1974).
5. Petroleum Inquiry Documents # 18512 (Mobil), # 128001 (Imperial), # 123456 (Imperial), # 120670 (Imperial), # 32836-7 (Shell), # 70490 (Gulf), and # 46255 (Texaco).
6. Based on data from A. Hersh "Concentration Levels in the Production and Reserve Holdings of Crude Oil, Natural Gas, Coal and Uranium in the U.S," *American Petroleum Institute*, Washington, D.C., May 1976; Presentation by the American Petroleum Institute to the U.S. Senate Judiciary Committee, Subcommittee on Antitrust, Monopoly and Business Rights, *Energy Antimonopoly Act of 1979, Part 1*, Hearings on S. 1246, 96th Congress, 1st Session, Washington, D.C., 1979, p. 184; *Oil and Gas Journal*, March 24, 1980; *National Petroleum News Factbook Issue*, May 1977; Petroleum Inquiry; *Oilweek*, May 14, 1979; and Energy, Mines and Resources Canada; retail data refer to outlets in fifteen metropolitan areas in Canada.
7. Some examples are Continental, Marathon, Amerada, Hess, Occidental and Getty. See Blair, *The Control of Oil*, p. xi; Adelman, *The World Petroleum Market*; and L. Turner, *Oil Companies in the International System*, (London, 1978).
8. Blair, *The Control of Oil*, chapter 3.
9. *Ibid.*, pp. 55-7.
10. Adelman, *The World Petroleum Market*.
11. *Ibid.*, p. 196.

12. *The Oil Import Question*, Cabinet Task Force on Oil Import Control, February 1970; D.R. Bolie and M. Russell, *Limiting Oil Imports: An Economic History and Analysis*, (Baltimore and London, 1978).
13. J.G. Debanné, "Oil and Canadian Policy", in E.W. Erickson and L. Waverman (eds.), *The Energy Question: An International Failure of Policy, Vol. 2, North America* (Toronto, 1974).
14. *Ibid.*, p. 133. Debanné has claimed that the National Oil Policy might more appropriately have been called the "multinational oil policy".
15. *Ibid.*, p. 134. Debanné observed that the National Oil Policy "led to suppression of competition by independents in the Ontario market." At least one member of the Royal Commission on Energy anticipated Debanné's observations. G.E. Britnell expressed his concern that the National Oil Policy, by reserving the Montreal and Ontario markets for Canadian crude oil and refined products or protecting the Canadian oil industry against the effects of competition from imports in the domestic market, would only benefit a few large oil companies in Canada that would be able to charge higher prices than those prevailing in a competitive market:

"A system of quantitative import restrictions would further have the effect of completely insulating the price structure of petroleum products in Canada from import competition. This would leave the way clear for the development of a system of "administered" prices, the setting of which would be determined by the few large oil companies which in Canada tend to dominate the business of refining and marketing. But these companies also own and produce the greater part of the petroleum produced in Western Canada. At the present time import competition, or at least the threat of import competition, serves to check any tendency which may exist towards the operation of monopolistic or oligopolistic practices. With the competition of imports removed it is difficult to believe that the establishment of well-head prices by refiners would continue to take place under conditions of arms-length negotiations. It is more logical to expect that prices would be maintained at levels much higher than would prevail were imports free to compete."

At the same time the existing market structure would be solidified and competition limited:

"A system of import quotas would freeze the existing marketing position of the various companies and individuals engaged in refining crude oil or in marketing refined products. It would also raise the problem of finding room for new entrants to any branch of the industry. Consequently, such a system would seriously limit the freedom of competition and the flexibility of the oil industry while its administration would almost inevitably give rise to claims of inequity as between individual companies and as between various regions of Canada."

(G.E. Britnell, "Memorandum of Reservations", Royal Commission on Energy, 1958-59, p. 153)

16. P.C. 1970-775 declared *intra vires* of Parliament by the Exchequer Court of Canada (*Caloil Inc. v. Attorney General of Canada*, No. 1 [1970] EXC.R. at 512). P.C. 1970-1419 revoked P.C. 1970-775 and was declared *intra vires* of Parliament by the Exchequer Court in *Caloil v. Attorney General of Canada*, No. 2 [1970] EXC.R. at 535.



## 17. For example:

"In fact, on a wholesale/retail system basis, the discount brands have an advantage in supply cost of only approximately 2.5 cents per gallon over the major brand wholesale/retail system. *The discount brands are able to sell at substantially lower retail price not because of significant differences in supply costs but because they are more efficient low-cost marketers at both the wholesale and retail level.* For example, the Esso dealer operates on a 10.5 cent per gallon retail margin whereas the operator of a Suny's gas bar operates on a 2.0 cent per gallon retail commission. The difference in retail margins at the operator level can therefore account for up to 8.5 cents per gallon difference in the pump price. Imperial's wholesale marketing margin is approximately 8 cents per gallon whereas discount brand wholesalers work on a margin of 5 cents per gallon which can account for a further 3.0 cents per gallon in price difference. In summary, the maximum retail price differential of *14 cents per gallon on the pump is possible because the discount brand dealer can operate for 8.5 cents less than the Esso dealer, the discount brand wholesaler can operate for 3.0 cents less than Imperial....* The discount branders do not have a significant supply cost advantage over the cost of supply to the Imperial Oil-Esso Dealer marketing system. The discount branders are able to offer lower prices because they have put together a low cost customer offering which trades off price against service, convenience, credit and all the other extras identifiable with the Esso full-service offering." See Petroleum Inquiry Document # 116604-5, Undated (Imperial), emphasis added.

18. Report of the Tariff Board, *Crude Petroleum and Its Derivatives* (Reference 84, 1936), p. 156.
19. See Note 2. The low estimate is from British Columbia (1966) and the maximum estimate from Nova Scotia (1976).
20. See Note 17 and Petroleum Inquiry Documents # 118394-5 (Imperial), # 179976 (Imperial), # 120066 (Imperial), # 60116 (Gulf), # 60114-5 (Gulf) and Table A-3 In Appendix A to Volume I.
21. Ontario was not the only province that could have been served more cheaply by foreign crude. British Columbia would also have been better off using foreign crude. Moreover, if Alberta crude prices had fallen to equate with prices of foreign crude landed in Ontario, Prairie consumers would also have received lower crude prices. *National Energy Board*, "A Comparison of the Cost of Canadian Crude Oil at British Columbia Refineries over the period 1962-1971 and Estimated Costs of Middle East Crude Oil at Vancouver over the same period," March 7, 1973 in Petroleum Inquiry Documents # 57362-3 (Texaco Canada). See also Volume II, Table 30.
22. Before-tax rate of return (NEB basis) in 1967 for Gulf Canada on the Mid-Saskatchewan pipeline.
23. The refiners' bias in the compensation differential amounted to \$1.50 per barrel or equivalently 4.5 cents per gallon.
24. Terminal operators include Natomas of Canada (owned by Natomas Co.), Spur Oil (owned by Murphy Oil Corp.), Caloil (owned by New England Petroleum), Elf Hydrocarbures du Québec (owned by Elf Aquitaine), and Universal Terminals (50% owned by Canadian Fuel Marketers, which is in turn owned by Ultramar).
25. *Petroleum Administration Act* (1975) 23-24 Eliz. II Ch.4.
26. The Honourable A.W. Gillespie wrote to the presidents of all oil companies operating refineries in eastern Canada on January 5, 1977, and March 6, 1978, about the supply of petroleum products to resellers and terminal operators and the possibility that this sector

would not be able to obtain adequate supplies of economically priced products from Canadian sources, despite the existence of surplus refining capacity. In the March 6, 1978, letter the Minister also expressed his concern that some major integrated oil companies might be forgoing profits on downstream operations and enlarging their share of the market through low pricing policies “aimed at under-cutting the economic viability of independent petroleum marketers.” Unless the industry could provide a solution to the problems faced by the independents, the Minister suggested that he would take action to reduce the compensation differential between crude and petroleum products or he might issue guidelines relating to pricing behaviour in the refiners’ and independents’ relationship. On August 15, 1979, the Honourable Ray Hnatyshyn sent a telex to the refiners urging “responsible action and co-operation” in light of supply problems faced by non-refiners in the summer of 1979. If such co-operation were not forthcoming, the Minister suggested, the federal government would introduce crude and product allocation schemes to maintain the viability of an efficient independent sector.

27. *Petro-Canada Act* (1975) 23-24 Eliz. II Ch. 61.
28. In the United Kingdom the government-owned oil companies are British Petroleum and British National Oil Corporation; in France, the Compagnie Française des Petroles and Elf/ERAP; in Italy, Ente Nazionale Idrocarburi; in Norway, Statoil; in Mexico, Pemex; in Brazil, Petrobras; in India, Oil India. See Energy, Mines and Resources, Canada, *An Energy Policy for Canada, Phase I, Vol. II — Appendices*, (Ottawa, 1973), p. 242; and Oystein Noreng, *The Government Control of State Oil Companies*, Oslo Institute for Business Administration, Working Paper 79/8.
29. Energy, Mines and Resources Canada, *The National Energy Program* (Ottawa, 1980), pp. 51-2.

## 2. *The Structure of the Petroleum Industry*

This section describes the basic commodity — crude oil — and the exploration, production, transportation, refining, and marketing sectors of the petroleum industry.

In this submission, the geographical market encompasses all of Canada, though the analysis sometimes isolates the five regional markets — the Atlantic provinces, Quebec, Ontario, the Prairies and British Columbia. These geographic distinctions were made because the oil companies themselves treat these areas as separate markets for the purpose of planning and administering their operations; and in addition social, economic, and political factors have affected petroleum production, refining, and distribution differently in each region.

A structural analysis reveals that the Canadian industry is concentrated in varying degrees from sector to sector. The analysis indicates that the industry sectors are connected by strong vertical links. The domination of the industry by four major vertically integrated firms is the single most important feature of the industry. This becomes evident in examining each of the industry's sectors from exploration to marketing.

### (a) *The Basic Commodity*

In its widest sense, the term “petroleum” embraces all hydrocarbons occurring naturally in the earth. In its narrower, commercial sense, the term is usually restricted to describing liquid hydrocarbon deposits. Gaseous deposits are known as “natural gas”; solids are referred to as “bitumen”, “asphalt”, or “wax” depending upon their composition.

Most crude oils, although liquid, contain gaseous and solid hydrocarbons in solution. The gases come out of the solution, either on the release of pressure as the crude oil is extracted or during the first stages of refining. These gases contribute to the total supply of natural gas. Natural gas is also found associated with crude oil in the form of a gas cap above the oil or, of course, as a deposit on its own. Some of the solids are recovered during refining as bitumen and wax and some stay in solution in the liquid oil products.

Outside the industry, it is rarely appreciated that crude oil is a heterogeneous product. Many features distinguish one type of crude oil from another, but two factors — sulphur content and specific gravity — are the main determinants of crude oil quality. Generally, the lower the sulphur content and the higher the gravity, measured in °API, the more valuable the crude. The mix of products obtainable from a barrel of crude oil depends upon the type of crude oil entering the refining process and the technical configuration of the refinery.

The petroleum industry produces a varied and extensive line of products from crude oil, ranging from gasoline to petrochemicals. Among them, however, a limited number of energy fuel products account for most of the



output. In 1979, gasoline alone accounted for about 35 percent of refinery production. Other fuels, including middle distillates and heavy fuels, comprised 52 percent of production, while 4.5 percent was used for petrochemical feedstocks, 3 percent for asphalt, and less than 5.5 percent for other miscellaneous products including lubricants.<sup>1</sup>

The principal petroleum products can be usefully classified under four broad headings: gasoline, heating oil, diesel fuel, and residual fuels. Two grades of both leaded and unleaded gasoline are produced, mainly for use in private motor vehicles — the largest consumers of gasoline. Heating oil and diesel fuel are broadly identical products, though because governments tax motor vehicle fuels, they are marketed through separate channels. Light heating oils are used in household and commercial space heating. Heavy or residual fuels are employed almost exclusively in commercial and industrial applications.

### (b) *Exploration*

During the exploration phase, companies search for crude oil and natural gas deposits that are generally located within or adjacent to areas of the earth's crust known as sedimentary basins. Modern exploration procedures follow a broadly standard pattern. First, a geological survey of the territory under consideration is undertaken, followed by as much detailed geological study as is rendered practical by the amount and distribution of surface rock outcrop. Where no surface indications of petroleum deposits appear in likely rock formations, geophysical surveys— through seismic, gravimetric, and magnetic methods — are used to obtain subsurface information. A detailed map is prepared from the survey information, and this map then serves as the basis for any decision to conduct further exploration.

Second, exploratory or wildcat wells are drilled on the basis of the survey. The information collected from studies conducted during the exploratory drilling phase leads to a final decision on whether to explore the area further. The drilling of a successful well is followed by a series of appraisals to determine the size and extent of the reservoir.

Third, serious exploratory drilling follows. The point at which exploration drilling enters the developmental phase depends on numerous factors, including the production potential of the find, transportation, market, and interrelated economic considerations.

The participants in the exploration for crude oil can be divided into two groups: the large, vertically integrated oil companies, and numerous other independent companies that are also involved in the production of crude oil as well as specialized exploration and drilling projects. The latter group has traditionally played a significant role in discovering new reservoirs.

### (c) *Production*

The crude oil production industry engages in a wide set of activities, ranging from the gathering of crude oil from the reservoir to the delivery of crude oil to the terminal facilities of the trunk pipeline. In addition, the production industry provides field storage and undertakes any necessary primary processing.

Canadian crude oil production totalled 461,308,845 barrels in 1977. Alberta was by far Canada's largest producing province, accounting for almost 83 percent of total production. Saskatchewan and British Columbia were next with approximately 13 percent and 3 percent of total crude production, respectively.

The three largest companies in the production of crude oil in 1978 were Imperial, Texaco, and Gulf (Table 2). These companies were also among the four largest firms in the other sectors of the petroleum industry. Shell, the other major company in the refining and marketing sectors of the Canadian petroleum industry, was the eighth largest producer of crude oil and the largest natural gas producer.

The production sector is not as concentrated as the other sectors of the petroleum industry. Imperial Oil, the largest producer of crude oil, accounted for 15 percent of the total production of crude oil and natural gas liquids in 1978, while the four national majors together produced 35 percent of all domestic crude oil and natural gas liquids. Of the regional major companies, only Chevron, Sun Oil, Petrofina, and British Petroleum were among the largest oil and gas producers in 1978; as a group, they accounted for over 13 percent of total production.

Though a variety of firms produce crude oil, technological and regulatory factors channel their product into the hands of relatively few buyers. Throughout the history of Canadian crude oil production, the owners of feeder pipelines have had an inherent competitive advantage in gaining "first purchase control" over many of the oil fields served by their lines. First purchase control derives from lease/purchase contracts with producers or other purchasers who give purchasing companies control over another company's crude oil. Since these lease/purchase contracts tended to last for the lifetime of the oil lease, "first purchase" rights have engendered substantial control for the relatively small number of purchasers who dominated the industry.

This pattern of "first purchase control" has been reinforced by regulations imposed in 1974 by the Alberta Petroleum Marketing Commission that designated a limited number of firms to be "approved purchasers" of conventional crude oil produced on Alberta crown lands — or 80 percent of total production. Though the number of buyers has been regulated only since 1974, Alberta regulations have affected competition much longer. The prorationing of the oil supply to market demand has had an important influence on the

TABLE 2

## LARGEST CRUDE OIL AND NATURAL GAS PRODUCERS, CANADA, 1978

	<i>Production of Crude Oil and Natural Gas Liquids</i>	<i>Share of Total</i>
	<i>(Thousands of barrels)</i>	<i>(Percent)</i>
Imperial	94,315	15.0
Texaco	44,822	8.0
Gulf	40,880	7.3
Mobil	39,092	7.0
Amoco	31,025	5.5
Chevron	27,266	4.9
Hudson's Bay	24,820	4.4
Shell	24,090	4.3
Petro-Canada	23,360	4.2
GCOS*/Sun	21,864	3.9
Petrofina	17,610	3.1
Dome	16,004	2.8
Canadian Superior	13,870	2.5
Pan Canadian	13,390	2.4
Home	11,315	2.0
Husky	10,731	1.9
Aquitaine	10,585	1.9
Ashland	9,819	1.7
Union	9,344	1.7
Norcen	8,468	1.5
British Petroleum	7,300	1.3
Total	562,167	91.3

\*Great Canadian Oil Sands

production sector of the oil industry since the early 1950s. Before describing the prorationing system in Alberta it is useful to note certain characteristics of crude oil production.

In the absence of constraints, individuals or companies holding surface drilling rights to a reservoir have a strong incentive to develop wells quickly to increase their share of crude oil production before their competitors. But the impact of all operators acting independently in any reservoir will lead to excessive productive capacity and a greater than optimal rate of production. Such competition tends inevitably to encourage early development and wasteful uses of economic resources and, consequently, tends to erode the potential net value of the resource.

The tendency towards such wasteful practices created the need for conservation regulation. At the heart of conservation regulation is a technical concept called the MER, or "maximum efficient rate" of production. The MER



is defined as the, "critical rate of extraction which, if exceeded, will result in significant losses of otherwise recoverable oil."<sup>2</sup> The MER is often justified as one method of preventing physical waste of oil, though it is widely understood that there is no economic principle that sanctifies the MER as the optimal production rate. Nor is there a universally applicable formula for determining the MER. In each case data are required on reservoir fluids, rock formations, recovery processes, and past performance.

Prorationing has evolved in response to the common-property characteristic of the oil fields. Under Alberta's prorationing scheme, buyers submit monthly nominations, or statements of their requirements for the forthcoming month. The total allowable output of a reservoir is usually allocated among producers in proportion to the number of wells they operate. At the same time, the number of wells pumping from a given reservoir is controlled. Since December 1950, regulation of most aspects of Alberta's oil and gas production has been entrusted to the Oil and Gas Conservation Board, now the Alberta Energy Resources Conservation Board.<sup>3</sup>

Alberta's prorationing system has gone further than was necessary to eliminate waste and unitize production. Market prorationing was used in addition to conservation prorationing. Alberta restricted demand well below the combined MER of its various fields and in the process has affected the market price of crude oil. The limitation of provincial output to the sum of the monthly nominations filed by purchasers, as a proxy for market demand, is not required for conservation purposes. This process eliminates competition among suppliers and effectively fixes a price. As such, it is more closely tied to producers' objectives, including the prevention of a decline in prices, than to consumers' interests. Insulated from independent shifts in the supply or demand for oil that would otherwise have caused price erosion, the price of Alberta crude oil for years remained higher than the price that would have prevailed in a free market.

#### (d) *Transportation*

In Canada, as elsewhere, the main producing areas of crude oil production are remote from the largest consumer markets. The movement of oil over great distances is, therefore, an integral part of the oil business. Oil and oil products are transported in bulk throughout the world by tankers when water transport is possible or by pipeline over land. The major oil fields in Canada are landlocked, and pipelines furnish the only efficient means of moving large volumes of oil.

Dominating the crude oil pipeline system in Canada are two main trunk lines: one stretching east from Edmonton, serves Ontario, the Great Lakes region of the United States, and Montreal; the other, from Edmonton to Vancouver serves parts of British Columbia and the northwestern United States.

The first trunk line, Interprovincial Pipe Line, is the longest crude oil pipeline system in the western hemisphere, extending 5,700 miles in the United States and Canada. The second main system, Trans Mountain Pipe Line, originates in Edmonton, traverses the Rocky Mountains, and swings southwest to Kamloops and Vancouver. From there a major lateral line extends southward to refineries in the Puget Sound area of the United States.

Providing these two main transmission lines with crude oil are a number of feeder lines that take the oil from field gathering systems. Some of the feeder lines are quite extensive and have substantial capacity. One of the largest of these systems in Alberta, Federated Pipe Lines Ltd., can transport up to 450,000 barrels per day (1977 capacity) from the Swan Hills area to the Interprovincial and Trans Mountain systems at Edmonton. Other major systems feeding into Edmonton include the Pembina Pipe Line Ltd., with a capacity of 185,000 barrels daily (1977 capacity); Rainbow Pipe Line Company Ltd., with 235,000 barrels daily (1977 capacity); Texaco Exploration Company, with 111,000 barrels daily (1970 capacity) and the Peace River Oil Pipe Line Co. Ltd., with 105,000 barrels daily (1970 capacity). In southeastern Saskatchewan, the combined systems of Producers Pipeline Ltd. and Westspur Pipe Line Company can provide up to 175,000 barrels daily (1977 capacity) to Interprovincial at Cromer, Manitoba. South Saskatchewan Pipe Line Company gathers crude in southwestern Saskatchewan for deliveries to refineries and to Interprovincial at Regina. The daily capacity of the line is 74,000 barrels (1977 capacity).

Crude oil is imported for refineries in the Montreal area via the Montreal Pipe Line Company Limited and its American subsidiary, the Portland Pipe Line Corporation. This system, with a 1977 capacity of 536,000 barrels daily, transports foreign crude oil from the Atlantic seaboard at Portland, Maine, to Montreal. However, it has not been fully utilized since the Interprovincial system was extended to pipe Alberta crude to Montreal. In fact, in 1979 and 1980 the Portland-Montreal pipeline operated at only 30 percent of capacity.<sup>4</sup>

Refined petroleum products and natural gas liquids such as propane and butane are normally carried in separate pipelines. In eastern Canada, the Sarnia Products Pipe Line of Imperial Oil Limited and Sun-Canadian Pipe Line Company Limited carry refined petroleum products from the Sarnia area to Toronto, servicing various locations en route. The Trans-Northern Pipe Line Company operates in the area between Montreal and Sarnia. The eastern section carries products from the Montreal refineries westward to Ottawa, Cornwall, and Maitland. The western section moves products eastward from Ontario refineries to locations as far east as Kingston. Another pipeline, Imperial Oil Limited's Quebec South Shore Products Pipe Line, delivers products from Montreal refineries to Boucherville and Drummondville. A

number of shorter pipelines are utilized in refinery complexes and to transport products from gas processing plants.

The major oil companies own a substantial interest in each of the major trunk lines (Table 3). Imperial owns a third of both Interprovincial Pipe Line and Montreal Pipe Line and has a smaller interest in Trans Mountain Pipe Line. Texaco owns 33 percent of Trans Mountain and 16 percent of Montreal Pipe Line. Both Gulf and Shell have smaller, but significant, interests in all three pipelines. With the exception of Montreal Pipe Line, of which British Petroleum and Petrofina each own 10 percent, the regional majors do not have any interests in the major trunk lines.

The major oil companies also have large interests in some of the feeder lines, but ownership or control of these lines is not as concentrated as it is in the main trunk lines. Some feeder lines are owned in large part by non-integrated oil companies that are involved primarily in production. Chief among these are Mobil, Hudson's Bay Oil and Gas, Dome, Home Oil, Union Oil, and Norcen.

The competitive implications of the pipeline system and its pattern of ownership, which have helped to create a monopolistic situation and hindered the development of competition in the oil transportation sector, are discussed in greater detail elsewhere in this material.

#### (e) *Refining*

Petroleum refining is the process of extracting marketable petroleum products from crude oil. From a barrel of crude oil, a variety of petroleum

**TABLE 3**  
SHARE OF OWNERSHIP OF MAJOR TRUNK PIPELINES, BY COMPANY, 1980  
%

	<i>Interprovincial</i>	<i>Trans-Mountain (Percent)</i>	<i>Portland</i>
Imperial	33.2	8.6	32
Gulf	7.4	8.6	16
Shell	2.0	8.6	16
Texaco	—	33.0	16
Total Majors	42.6	58.8	80
British Petroleum	—	—	10
Petrofina	—	—	10
Standard Oil of B.C.	—	8.6	—
Total Regional Majors	—	8.6	20
Others	57.4	32.6	—



products — such as gasoline, petrochemical feedstocks, and lubricants — are produced. Most Canadian refineries have the flexibility to process a variety of crude oil types; hence, some intermingling of crudes does not pose undue problems.

Transportation costs are one of the most important determinants of the geographic market for petroleum products. Because crude oil is less expensive to transport than finished products, the oil companies generally locate their refineries close to potential markets. Pipelines or oil tankers connect the oil fields and the refineries. In order to minimize the costs of transporting finished products, refiners in one region often enter into processing, exchange, or purchase and sale agreements with their counterparts in other regions. These agreements effectively link the interests of one company with another and thereby reduce their competitiveness.

Refineries in the Atlantic provinces are located near tidewater cities, and all receive imported crude oil by tanker. The major refineries in Quebec are located immediately east of Montreal where imported crude oil is received directly by tanker or by overland pipeline from the tidewater terminal at Portland, Maine; Canadian oil is supplied by the Sarnia-Montreal extension of Interprovincial Pipe Line. In Quebec City, imports have been the exclusive source of crude oil, though the Ultramar refinery has recently been granted supplies of western Canadian crude to be shipped by tanker from Montreal to Quebec or to be exchanged with other refiners.

**TABLE 4**  
PRODUCT YIELD OF REFINERIES, CANADA, 1977-79

	1977		1978		1979	
	B/D	%	B/D	%	B/D	%
Gasoline	619,400	34.3	632,200	34.8	681,800	34.5
Aviation turbo fuel	70,200	3.9	77,000	4.2	83,800	4.2
Kerosene, stove oil, and tractor fuel	71,500	4.0	64,600	3.6	31,900	1.6
Diesel fuel oil	226,900	12.6	234,000	12.9	257,700	13.0
Light fuel oil	240,100	13.3	226,100	12.4	283,800	14.3
Heavy fuel oil	344,100	19.0	330,100	18.2	342,500	17.3
Liquid petroleum gases	34,900	1.9	38,800	2.1	24,100	1.2
Petrochemical feedstocks	65,100	3.6	85,000	4.7	91,000	4.6
Asphalt	50,500	2.8	51,000	2.8	58,500	3.0
Lubricants	12,300	0.7	12,600	0.7	16,100	0.8
Other products	72,800	4.0	65,100	3.6	108,200	5.5
Total production	1,807,800		1,816,500		1,979,000	

Source: *Oilweek*, June 9, 1980, p. 22. 1979 figures converted to barrels from cubic metres.

Ontario refineries are located in the Sarnia and Toronto-Hamilton areas and are supplied with western Canadian crude oil via Interprovincial Pipe Line. The leading refining areas of the Prairie provinces are Winnipeg, Moose Jaw, Calgary, and Edmonton. The refineries in western Canada are generally not as large as those in Ontario and Quebec.<sup>5</sup> The main British Columbia refining centre is near Vancouver.

The type and quantity of the products yielded by Canadian refineries for the 1976-78 period are shown in Table 4. The four major products refined from crude oil are gasoline, heavy fuel oil, light fuel oil, and diesel fuel oil. In 1978 these four products accounted for 78.3 percent of all production from Canadian refineries. Gasoline was the most important refined product, comprising approximately 35 percent of refinery output.

In 1979 there were thirty-nine petroleum refineries in Canada owned by fourteen refining companies, including the Come-By-Chance refinery in Newfoundland and the Petrosar refinery in Sarnia. But since both of these refineries are anomalies in the Canadian refining industry — Come-By-Chance because it is not now in operation, and Petrosar because it is a petrochemical plant — they are excluded from this analysis.

Table 5, reveals that the four major companies in the Canadian petroleum industry — Imperial Oil, Gulf, Shell, and Texaco — account for twenty-five of the thirty-seven refineries and approximately 64 percent of total refining capacity. The regional major companies — Irving, BP, Petrofina, Sun Oil, and Chevron — control six refineries and approximately 27.5 percent of the total refining capacity.

The table also shows that the four majors as a group are predominant in all regions except the Atlantic provinces, where Irving Oil operates roughly half the refining capacity. The data understates the presence of the national majors in the important gasoline and heating oil markets. With a few exceptions, the majors operate sophisticated refineries geared to producing gasolines and heating oils and thereby hold a large share of these key product markets. Some of the regional majors operate refineries with less capacity to produce lighter petroleum products. For example, Ultramar in St. Romauld, Quebec, uses a process that leaves large residuals of heavy fuel oil during the production of lighter products. Another regional major, Irving, exports much of its gasoline production, reportedly by contractual agreements with Standard Oil of California, which supplies the crude oil.

#### (f) *Marketing*

Refiners sell their output basically to three groups: commercial and industrial accounts, independent resellers, and their own distribution networks. Firms in the first category purchase refined products for their own energy

TABLE 5

REGIONAL REFINERY CAPACITY, BY COMPANY,\* CANADA AND REGIONS, 1979

	Number of Refineries	Share of Capacity by %					
		Canada	Atlantic	Quebec	Ontario	Prairie	B.C.
Imperial Oil	6	21.95	18.97	12.70	20.58	42.07	24.45
Gulf	8	17.28	18.31	12.52	12.32	28.34	27.60
Shell	6	13.21	—	19.44	18.37	9.72	13.06
Texaco	5	11.71	4.52	12.07	22.26	6.67	—
Four Majors Totals	25	64.15	41.80	56.73	73.53	86.80	65.11
Irving Oil	1	10.99	55.49	—	—	—	—
BP	2	6.76	—	11.51	12.46	—	—
Golden Eagle	2	6.15	2.71	16.69	—	—	—
Petrofina	1	4.16	—	15.07	—	—	—
Sun Oil	1	4.03	—	—	14.01	—	—
Consumers Co-op	1	1.61	—	—	—	10.00	—
Chevron	1	1.57	—	—	—	—	20.77
Husky Oil	2	0.94	—	—	—	3.20	5.64
Petro-Canada	1	0.64	—	—	—	—	8.48

\*Excluding Come-By-Chance and Petrosar.

Source: *Oilweek*, May 14, 1979.

requirements; the refiners and independents compete against each other in the final retail market for the consumer's business. Independent resellers participate in the marketing segment of the petroleum industry where, unlike the other sectors of the industry that are dominated by a few large manufacturing or transportation units in each geographic region, petroleum products are marketed through thousands of small outlets spread across the country to service local markets. For example, there are currently over 20,000 retail gasoline outlets in Canada. As the accompanying submission documents, it was against the independent resellers that the majors employed restrictive monopolistic practices. Thus the final retail market, not the commercial and industrial sector, provides the focus of the marketing volume.

### (g) *Heating Oil*

The marketing volume focuses on the restrictions to competition in the gasoline market, since this was the one area where refined products did not face any competition from substitute products.<sup>6</sup> Although imports of gasoline occurred, the domestic refiners were able to restrain competition from this source and exploit their monopolistic position. In the heating oil market, there



was more competition from imported products and rival fuels. For example, commercial and industrial users in many parts of Canada can substitute natural gas and heavy or residual fuel oil and coal for light fuel oil. In the residential sector, natural gas and electricity compete with heating oil. Table 6 indicates the percentage share of the Canadian home heating market held by fuel oil and its principal substitutes — natural gas and electricity — since 1964. The table illustrates the rate at which these substitutes have been replacing fuel oil as a source of home heating. Table 6 shows that the total demand for fuel oil reached a maximum in the early 1970s and has since been declining.

Even though the total demand for light fuel oils is decreasing as Table 7 indicates, the market remains significant as the dollar value of the product has been increasing substantially in the last few years. For instance, the industry selling price index of light fuel oil (1971 = 100), nearly doubled between 1975 and 1979—rising from 185 to 322.3—while demand decreased 11.4 percent.

TABLE 6

PERCENTAGE SHARE OF THE CANADIAN HOME HEATING MARKET  
HELD BY PRINCIPAL HEATING FUELS, SELECTED YEARS

	<i>Oil or other liquid fuels</i>	<i>Natural Gas</i>	<i>Electricity</i>	<i>Other*</i>
1964	59.0	23.9	—	17.1
1968	59.5	28.8	2.8	8.4
1972	56.8	32.6	6.4	4.2
1976	47.5	36.7	13.1	2.7
1980	37.3	39.4	19.5	3.8

\*Wood, coal, coke and other heating means.

Source: Statistics Canada, Service Bulletin #64-202.

Despite the availability of substitutes in some regions of the country, which may protect consumers in the long run, the heating oil sector has not been free of major oil company domination. In 1977, the major oil companies, whose product is delivered by their own employees or by trucking contractors, controlled 63 percent of the residential market in Quebec. In that province, independent distributors and marine terminal operators controlled 30 and 7 percent of the market respectively; but a large proportion of the 7 percent market share held by the terminal operators was controlled by Canadian Fuel Marketers (CFM), a former subsidiary of Shell Petroleum Co. Ltd. of England, and now wholly owned by Ultramar.<sup>7</sup> Elsewhere in Canada, the independent resellers' share of the heating oil market is less significant. In Ontario, accord-

**TABLE 7**  
**VOLUME OF LIGHT FUEL OIL (NOS. 2 & 3)**  
**SOLD IN CANADA, BY PROVINCE, SELECTED YEARS**  
**(Barrels)**

<i>Year</i>	<i>Atlantic Provinces</i>	<i>Quebec</i>	<i>Ontario</i>	<i>Saskatchewan</i>	<i>Alberta</i>	<i>British Columbia</i>	<i>Northwest Territories Yukon</i>	<i>Canada</i>
1967	9,962,527	29,608,794	35,653,417	1,947,633	946,436	4,845,121	209,881	84,757,849
1971	14,002,762	38,007,909	39,671,871	1,769,471	821,058	6,701,722	732,171	103,216,708
1975	15,875,581	39,486,467	34,914,789	1,574,734	985,288	6,500,005	763,674	101,527,083
1979	13,981,349	34,036,957	32,050,430	1,325,523	784,803	5,532,690	794,156	89,914,386

Source: Statistics Canada, Service Bulletin 45-004.

ing to an exhibit Imperial Oil submitted to the Royal Commission on Petroleum Products Pricing, independent distributors held a 17 percent share of the home fuel oil market in 1975.<sup>8</sup> However, as in Quebec, this percentage included the retail sales of CFM, the largest retailer of fuel oil to have been classified as non-integrated with wholly owned dealers within Ontario.<sup>9</sup>

Heating oil delivered to the consumer may be considered a homogeneous product. Although it is sometimes advertised that the product of a given company is superior in quality to that of another, consumers do not have the knowledge required to judge the merits of such differences. It is difficult for consumers to ascertain whether a furnace breakdown is caused by the poor quality of heating oil or by an equipment failure. Hence, the product may be considered homogeneous from a consumer standpoint.

Conversely, the services connected with delivery may not be homogeneous: automatic and twenty-four hour delivery, furnace maintenance service, and insurance on parts can vary among distributors. Such services have identifiable costs that are reflected in prices.

Considering the relatively homogeneous nature of the product, it might be expected that sources of supply would be readily interchangeable at the consumer level. Such is not the case, however, because of customer inertia. The consumer's attachment to a specific supplier that develops in the heating oil market means there is less incentive than in gasoline retailing for refiners to engage in price competition.<sup>10</sup> This attachment of customers to retailers is an asset for already established distribution services and is an entry barrier for new businesses. Customer attachment can be cultivated by offering attractive terms on items such as equipment rentals and mortgages. The effect of such policies is to discriminate between new and long-standing customers. Because of customer attachment, once the residential customer is signed up, price competition for his patronage becomes less intense.

The major companies have recognized the potential for exploiting this customer attachment and have sometimes tried to limit entry into the retailing sector by including a clause in an employment contract prohibiting an agent from opening his own business for a certain period of time in a given territory; by refusing to sell heating oil to a former agent; or by lowering prices in the territory served by an agent after his departure from the company in order to prevent him from developing his own business.

The major companies have also reduced the size of the independent retail sector by acquiring a large number of independent distributors. Between 1958 and 1975, the independent distributors retained a significant share of the market only in those regions of the country where they had access to sources of supply other than domestic refiners. Elsewhere, the oil companies have eliminated, usually by purchase, numerous independent distributors.



Control over the customer relationship and the restriction of the size of the independent retailing sector for heating oil has two effects. First, by attracting a few large distributors, a new refiner or importer can rapidly become established in this market and thus compete with the majors. Thus restricting the size of the independent retailing sector reduces competition at the refining level by reducing the incentive for entry to refining. Second, by restricting the growth of large independent distributors who would otherwise be in an excellent bargaining position when negotiating for supplies, the majors reduce the possibility that competition will develop among refineries.<sup>11</sup>

Since 1975, with the removal of the import option in the Quebec market, the number of complaints brought to the Director's attention from resellers about refiner marketing practices has substantially increased. Therefore competition problems continue to exist in the residential heating oil market in Quebec. Elsewhere in Canada, the potential for monopolistic exploitation of consumers is limited by competition from natural gas. In Quebec and the Maritimes, though the resellers have been weakened as rivals by the elimination of imports as an alternative source of supply, the option of heating by electricity protects consumers somewhat as has the increased availability of natural gas.

#### (h) *Gasoline*

Since the possible exploitation of monopolistic power in the fuel oil sector is tempered by the availability of substitutes, the marketing volume of this submission deals with gasoline, a product lacking widespread substitutes. From Table 8 it is clear that gasoline is the most important petroleum product marketed within Canada. In 1978, sales totalled approximately 8 billion gallons. Ontario and Quebec were the largest markets for gasoline, accounting for approximately 59 percent of total sales. Ontario was the largest gasoline consuming province with 35 percent of total sales.

Gasoline is marketed to the Canadian motorist at the retail level through a network of service stations. These retail outlets can be grouped into the following categories:

- National brand majors — outlets operating under the name of one of the four major companies with national representation: Imperial, Gulf, Shell or Texaco.
- Regional brand majors — outlets of other integrated oil companies that are strongly represented in only one or two regions of Canada. Irving, Petrofina, British Petroleum, Sun Oil, and Chevron are among the companies included in this category.
- Second brands — outlets owned and operated by fully integrated oil companies but not identified by the major brand logo. In this category, Imperial has used Gain, Econo, and Champlain; Shell has sold through Beaver and Gas Mart; and Texaco has used Regent.

**TABLE 8**  
**GROSS SALES OF GASOLINE, BY PROVINCE AND TERRITORY,**  
**CANADA, 1978**

	<i>Thousands of gallons</i>	<i>Percentage of total</i>
Newfoundland	136,381	1.7
Prince Edward Island	42,811	0.5
Nova Scotia	266,539	3.3
New Brunswick	246,443	3.0
Quebec	1,925,819	23.7
Ontario	2,845,066	35.0
Manitoba	374,293	4.6
Saskatchewan	444,181	5.5
Alberta	913,551	11.3
British Columbia	901,647	11.1
Yukon	12,769	0.2
North West Territories	9,381	0.1
Total	8,118,888	100

Source: Statistics Canada, Service Bulletin # 53-218.

- Private brand or unbranded independents — this category includes firms that retail gasoline but are not usually refiners or fully integrated companies. There are two main groups of independent retailers: mass merchandisers, such as Canadian Tire, Simpsons-Sears and Woodwards as well as firms like Caloil, Natomas, Murphy, Mohawk, and Turbo that offer many of the same services as the majors' brands; and the smaller "private brand" (or "unbranded") dealers who usually sell through what are known as gas bars and offer fewer services.

Table 9 indicates that at the beginning of 1980 the four national majors operated nearly 60 percent of all retail gasoline outlets in Canada. The regional major companies added another 26 percent to the total number of outlets owned or operated by refiners. The remaining refiners and independents controlled less than 20 percent of all retail outlets in Canada.

Service stations can be classified by the type of ownership link between the supplier and the operator and the control exercised over the operator. The national and regional majors typically market gasoline through three channels:

- company owned stations operated by salaried employees or commission agents;
- company owned stations operated by lessee dealers;
- stations owned by independent businessmen who are tied to the oil company by a supply contract and sell under the supplier's logo.

Company owned operations, such as self serve and second brand outlets, are subject to the most direct control by the major oil companies. Over the past decade the market share of these stations, with their low prices, has

**TABLE 9**  
**RETAIL GASOLINE OUTLETS, BY COMPANY,**  
**CANADA, 1980**

	<i>Number of Outlets</i>	<i>Share</i> (Percent)
Imperial Oil	4,373	18
Shell	3,815	16
Texaco	3,194	13
Gulf	2,659	11
Four majors combined		58
British Petroleum	2,357	10
Irving <sup>a</sup>	2,000	8
Petrofina	1,086	4
Sun Oil	955	4
Other	3,781	16
Total retail outlets	24,220	100

(a) Estimate; Irving is reported to have had 2,355 outlets in 1978. See *Oilweek*, April 10, 1978, p. 14.

Source: *Automotive Marketer*, January 1980, p. 17.

grown dramatically. Many of these stations are capable of pumping over one million gallons annually — two to three times the volume traditionally sold at conventional branded full-service stations.<sup>12</sup> Table 10 shows that over the 1973-79 period, self-serve outlets captured from 25 to 40 percent of the large urban markets. The four national majors together owned over 60 percent of all self-serve outlets.<sup>13</sup>

**TABLE 10**  
**SELF-SERVE MARKET SHARE IN SELECTED URBAN MARKETS,**  
**1973-79**  
 %

	<i>Share of Retail Outlets</i>						
	<i>1973</i>	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>
St. John's	0	2.4	10.5	16.0	17.4	20.6	27.0
Halifax-Dartmouth <sup>a</sup>	0	0	0	0	0	0.7	0.7
Montreal	0.6	6.4	14.5	17.6	19.1	22.6	23.8
Ottawa	0	3.5	12.5	17.9	21.1	24.0	25.8
Toronto	0.4	3.9	13.2	11.0	20.4	25.9	28.5
Winnipeg	1.0	6.5	12.5	21.7	26.9	31.3	34.1
Regina	2.4	8.8	12.0	27.2	30.3	32.7	33.3
Edmonton	1.3	4.8	18.2	24.4	31.0	36.8	38.9
Vancouver	0.6	5.9	16.9	21.8	22.4	24.8	27.8

(a) Section 36 of the Nova Scotia *Gasoline and Fuel Oil Licencing Act* restricted the growth of self-serves in that province.

Source: Energy, Mines and Resources Canada.



Lessee stations are leased by the oil company to the dealer for an annual rental fee. This fee is generally calculated on the basis of the volume of gasoline sold and a percentage of the dealer's other sales revenue. The dealer is entitled to the use of the company's brand name, receives advertising and sales support, and thereby enjoys the benefits of the company's reputation. In return, the dealer buys his gasoline and frequently other products exclusively from the oil company. While lessee dealers are nominally independent retailers, there are occasions when programs are implemented that make them agents of the supplying company and give the latter control over prices. Under consignment and temporary allowance arrangements, lessee dealers have found their control over the retail price of gasoline either reduced or completely eliminated.<sup>14</sup>

Branded independent stations are generally owned by the retail dealers, although some are leased from third parties. Many of these stations are tied to their major brand supplier by the terms of a mortgage or other financial assistance advanced by the supplier. All are tied by supply contracts that may extend up to five years or more. Like the lessee, these dealers may also find their retail gasoline prices controlled by the oil company under consignment, temporary allowance, or other similar programs.

Although these three channels are the primary means by which the majors sell gasoline, one company recently introduced a new marketing concept. In 1977, Imperial Oil entered into an arrangement with Suny's International, a private brand independent operating thirty-seven stations in central Canada, whereby Imperial would sell gasoline to Suny's on a consignment basis and was able to influence the retail price of gasoline sold at Suny's outlets.<sup>15</sup>

While there was, therefore, a difference in the distribution channels chosen by the majors to retail gasoline, until the 1970's, the single most important contrast that existed in the retail sector was the difference in the costs of the independent in comparison to those of the majors. The majors, because of their tendency to avoid price competition, to overbuild service station outlets, and to provide unnecessarily costly services developed an inefficient distribution network. The private brand independent retailers were able to market gasoline at lower cost than the majors.

The independents were able to function with lower operating margins for several reasons. The main ingredients of the independents' successful formula included:

- superior direct financial and management control of individual stations.
- higher volume sold per station because of careful selection of locations and lower prices either with a similar level of services as the majors or without some of the services the majors provided.
- occasional access to lower priced gasoline than the majors.

The cost advantage of various independent operators in comparison to the majors varied considerably. Those who did not rely upon volume for scale economies but chose less expensive locations and fewer services might enjoy a 4 cent per gallon advantage.<sup>16</sup> Those that both relied upon volume and operated with fewer services could enjoy an advantage of up to 13-14 cents per gallon by the early 1970s.<sup>17</sup> Subsequent volumes deal with the type of monopolistic practices that the majors employed to restrict competition from the cost-efficient independent sector.

## Notes

1. *Oilweek*, June 9, 1980, p. 22.
2. S.L. McDonald, "Conservation, Regulation and the Elements of a National Energy Policy" in E.W. Erickson and L. Waverman, eds., *The Energy Question: An International Failure of Policy, Volume 2, North America*, p. 340.
3. For a discussion of Alberta's oil and gas management policy, see M. Crommelin, P.H. Pearse, and A. Scott, "Management of Oil and Gas Resources in Alberta: An Economic Evaluation of Public Policy", *Natural Resources Journal*, (April 1978), pp. 337-89.
4. Pipeline capacities are from *The Pipeline News Directory*, 1977.
5. However, Imperial's Edmonton refinery, with a capacity of some 150,000 barrels per day, is among the largest in Canada. See *Oilweek*, June 9, 1980, p. 16.
6. Petroleum Inquiry Document # 9634 (B.P.)
7. Market share figures are drawn from M. Roy, *Le Marché de la distribution de l'huile à chauffage et les indépendents — le cas du Québec*, (masters' thesis, Laval University, 1980), pp. 10-16. These figures were obtained from the Quebec Ministry of Energy and Resources.
8. *Ontario Royal Commission on Petroleum Products Pricing*, July 1976, p. 87.
9. *Ibid.* p. 86.
10. *Ibid.*, p. 88.
11. A Texaco document indicates that the refiners were concerned with the rapid growth of independent distributors who, as a result, were in a strong position to negotiate with the suppliers:  

“(a) The independent jobbers developed extremely large ‘wholesale’ volumes and demanded selling margins beyond the economic range that oil companies were willing to pay, and therefore much of the ‘wholesale’ volume became unprofitable.”

(Document # 47722, Texaco Canada)
12. Imperial Oil Limited, *Submission to the Ontario Royal Commission on Petroleum Products Pricing*, December 1975, Figure 7; Gulf Oil Canada Limited, *Presentation to the Manitoba Energy Council on Gasoline Retailing in Manitoba*, April 1975, pp. 21-2.
13. *Automotive Marketer*, January 1980, p. 66.
14. Consignment arrangements remove from the dealer title over the gasoline he sells; the dealer sells gasoline to motorists as an agent for the oil company. The company, by paying the dealer a set commission, is free to establish retail pump prices. Temporary allowances differ from consignment in that the dealer retains title of the gasoline and the authority to set his own pump price. However, the amount of the allowance is geared to the price the dealer charges according to a preset schedule. The companies, by carefully designing the schedule of per gallon allowances, can directly influence the price the dealer charges and thereby gain de facto control over retail pump prices.
15. See Appendix B to Volume VI (*The Marketing of Gasoline*) which discusses the Imperial Oil-Sun's arrangement. Also see Appendix C to Volume VI which describes the supply and other difficulties encountered by a Quebec independent reseller, Perrette Dairy Limited, who refused to accept Imperial's consignment offer.
16. Petroleum Inquiry Document # 180143 (Imperial). See also Appendix A, Table A-3.
17. Petroleum Inquiry Document # 116604-5 (Imperial). See also Appendix A, Table A-3.



### 3. *The Development of the Industry*

#### (a) *Production and Refining*

Since the end of the First World War, the history of the petroleum industry in Canada has been closely tied to the growing popularity of the automobile. For almost three decades, Canadian motorists depended mainly upon imports of crude oil for their gasoline. During this period, the refining and marketing sectors of the industry expanded to meet the growing demand for gasoline.

In 1947 crude oil was discovered at Leduc, Alberta, signalling the major expansion of the production and pipeline sectors of the domestic industry. The growth of crude oil production since 1947 falls naturally into three distinct phases: an initial period of extremely fast expansion until 1956; a post-Suez period of slower development; and a sustained period of moderate growth from 1961 to 1973.<sup>1</sup> Though the uses of refined petroleum products in Canada are now diverse, by far the largest share of petroleum production is still marketed as gasoline.

This historical overview of the petroleum industry examines the production, refining and marketing sectors prior to 1973. Since the OPEC-related events in that year, the world petroleum industry has changed dramatically. As a result, events following 1973 are reviewed in section C of this Volume.

During the initial post-war development of the domestic production sector, from the discovery of oil at Leduc in 1947 to the Suez crisis in 1956, the Canadian economy grew dramatically. In the ten years after 1946, Canada's real gross national product rose by more than one-half, stimulating the rapid development of domestic crude oil production. Per capita consumption of oil almost tripled during the period. By 1955 oil represented 46 percent of Canada's total energy consumption, compared to 30 percent in 1950.<sup>2</sup>

On the supply side, only 10 percent of the Canadian market for crude came from domestic sources in 1946, compared with 55 percent ten years later. Over the decade, annual Canadian production rose from 7 to 144 million barrels. By 1956 Canada had achieved a significant measure of self-sufficiency. Total production of crude oil in that year reached a level sufficient to supply two-thirds of Canadian demand, although much of this production was exported to the western United States and imports of crude continued to serve eastern Canada.

The refining and transportation sectors expanded at an equally rapid pace. Refining capacity tripled during the ten years following 1946, with the most rapid expansion taking place in Ontario and Quebec. In the pipeline sector, The Interprovincial Pipe Line Company was incorporated in 1949 and, by the end of 1950, a large diameter trunk line was completed from Edmonton to Superior, Wisconsin. In 1952 the Trans-Northern Pipeline Company com-

pleted a pipeline from Montreal to Hamilton. In 1953 Trans Mountain Pipe Line completed a trunk line from Edmonton to Burnaby, British Columbia, with an initial capacity of 150,000 barrels of oil a day. That same year the Interprovincial pipeline was extended to Sarnia. By 1953 pipelines carrying Canadian crude oil reached from the Canadian west coast to Montreal.

The development of the oil industry in this period was not without problems. Within two years of the discovery at Leduc, production potential had exceeded market demand at prevailing prices. In an effort to cope with the oversupply problem, the Alberta government introduced a system of market prorating to regulate the production of crude oil.

The initial expansionary phase of the Canadian oil industry ended in 1957. The slowdown in the rate of general economic growth after 1956 was reflected in the demand for all petroleum products. The upward trend of petroleum consumption, which had grown at an annual rate of 11.6 percent in the decade after Leduc, broke sharply in 1957, rising only 4.5 percent annually during the ensuing four years.

In addition to slower domestic growth, the rate of international economic growth depressed export markets for Canadian crude oil. Furthermore, the Canadian oil industry appeared in the late 1950s to be threatened by increasingly stiff oil import quotas against Canadian sales in the United States. To complicate matters further, natural gas became a serious competitor in some petroleum markets as its use expanded in both the United States and Canada. Canadian natural gas production tripled between 1956 and 1961, and the Trans-Canada pipeline was completed in 1959 to transport natural gas for industrial and home use to most urban industrial centres as far east and including Montreal.

Reduced access to American markets and the additional competition from natural gas resulted in excess capacity to produce crude oil in Western Canada. At one point, production in Alberta fell to 40 percent of capacity.<sup>3</sup> This situation led to the appointment of the Royal Commission on Energy in 1957 to advise the federal government on appropriate solutions to the problem. One solution recommended to the Commission, by some small and intermediate oil-producing companies in western Canada, was the extension of the Interprovincial pipeline east to Montreal — Canada's largest import market. The Commission rejected this proposal and suggested that western producers attempt to improve their markets for oil in other areas before such a solution be given serious consideration.

Much of the opposition to the Montreal pipeline came from the large integrated international oil companies. These companies, following the imposition of U.S. quotas, required a market for Venezuelan and Middle Eastern crudes. A number of the major companies argued that it would be more economical to import foreign oil to the Montreal market than to supply this

market with western Canadian oil. Instead of opting for the Montreal pipeline extension, in 1961 the Canadian government adopted a voluntary policy that came to be called the National Oil Policy.

The introduction of the National Oil Policy coincided with the beginning of a renewed expansion of the Canadian economy and marked a new phase in the growth of the petroleum industry. Under the National Oil Policy, the government wished to see the area west of a line drawn between the Ottawa Valley and Kingston served by Canadian crudes and the area east of this line served by imports.

This policy emerged partly in response to the dilemma faced by the petroleum industry. In 1959 the United States granted to Canada an exemption from the mandatory quotas that applied to imports of Venezuelan and Middle Eastern oil into the United States. But the United States indicated it did not want Canada to increase exports of Canadian crude to the United States by displacing the existing use of Canadian domestic crude production in Canadian refineries with imports of cheaper foreign crude. In order not to jeopardize the Canadian producers' exemption from the U.S. import quotas, the Canadian federal government announced that it did not want to see imported crude oil displacing domestic crude west of the National Oil Policy Line. The effect of this and other actions was to maintain access for Canadian exports to the United States market. In addition, the multinationals with oil fields in Venezuela were concerned about having lost free access to U.S. markets for their growing production as a result of the imposition of the American quota system. The National Oil Policy, by reserving the Quebec and Maritimes markets for imported, mainly Venezuelan oil, promised a market for this production.

The new opportunities in the expanding U.S. market and the protected sector of the Canadian domestic market provided by the announcement of the National Oil Policy stimulated the production of Canadian crude. Production of crude oil increased at the rate of 8 percent per year in the 1960s compared with a rate of about 4.5 percent per year in the preceding four years. During the 1960s, synthetic crude from the Athabasca tar sands came onto the market and exploration in Canada shifted to the Arctic and coastal areas.

Developments in exploration and production were matched by the building of significant additions to both pipeline and refinery capacity. The major oil pipelines that had been built in the 1950s virtually doubled their capacity in the 1960s. The main additions were to the lines carrying oil to the eastern markets in Ontario and the United States, including a line joining the Interprovincial Pipe Line Company's 'big-inch' line from Edmonton to Sarnia to the Chicago market. During the 1960s, Canadian refinery capacity increased by over 36 percent to nearly 1.3 million barrels per day, mainly in eastern Canada.



Canada's National Oil Policy ran its course when the days of lower priced oil imports from offshore sources ended in the early 1970s. The National Oil Policy was officially terminated in December 1973, during the world oil crisis.

### (b) *Gasoline Marketing*

Throughout the history of the Canadian petroleum industry, the principal means of retailing gasoline has been through refiner supplied and controlled "branded" outlets. However, competition to the refiners' distribution networks has emerged in Canada through retail outlets controlled by non-refiner marketers. These firms, which have become known as "unbrandeds", "private brands" or independents, have had a greater tendency than the majors to engage in price competition. The marketing section (Volume VI) focuses on the monopolistic practices employed since the late 1950s by the major oil companies to restrain competition from these firms.

Since the 1920s, independent resellers have emerged as effective rivals to the majors' marketing system whenever imported petroleum products provided them with a "competitive" supply source. For example, between 1922 and 1930, following the reduction on May 24, 1922, of tariffs on gasoline imports from 2.5¢ to 1¢ per gallon, products were imported from the relatively competitive U.S. refining industry that had been transformed by the dissolution of Standard Oil of New Jersey in 1911. Many Canadian companies began operations during the 1920s when U.S. supplies of refined product became available. Among these were Sun Oil, Cities Service, and Irving. These three marketers all built refineries in Canada during the 1950s.<sup>4</sup> Beginning in the late 1950s, Canadian independents were again able to draw on offshore supplies of refined products and their share of the retail market increased.

Generally, the integrated petroleum companies operating in Canada entered the industry first as marketers of gasoline through the construction of service station networks. Later they became integrated backwards by building refineries.<sup>5</sup> New participants still usually first enter through the marketing sector and later seek to improve their own source of refined product by building a refinery.<sup>6</sup>

The Canadian petroleum refining and marketing sectors have always been extremely concentrated. In 1898 Imperial Oil and Standard Oil merged and Imperial became the dominant firm in the industry. Until the 1920's Imperial completely dominated the refining and marketing of gasoline in Canada. In 1911 Imperial's share of total naphtha and gasoline sales was 95.3 percent in Toronto and 84.2 percent in Montreal. As late as 1919, Imperial is reported to have controlled 92.4 percent of Canadian refinery capacity.<sup>7</sup>

In spite of Imperial's dominance, independent marketers did develop and some independents emerged as strong vertically integrated organizations.

Among them McColl, a marketing firm established in 1873, acquired the Frontenac refinery in 1927 to form McColl-Frontenac. Control over McColl-Frontenac was later acquired by Texaco in 1938. British-American, control over which was acquired by Gulf in 1956, began as a distributor in 1906, and later developed a small refinery operation. A brief history of Imperial, Gulf, Texaco, Shell, and the regional majors is presented in Appendix C to Volume I. Appendix E of this volume contains a list of acquisitions made by Imperial, Shell, Gulf and Texaco in Canada primarily since 1950.

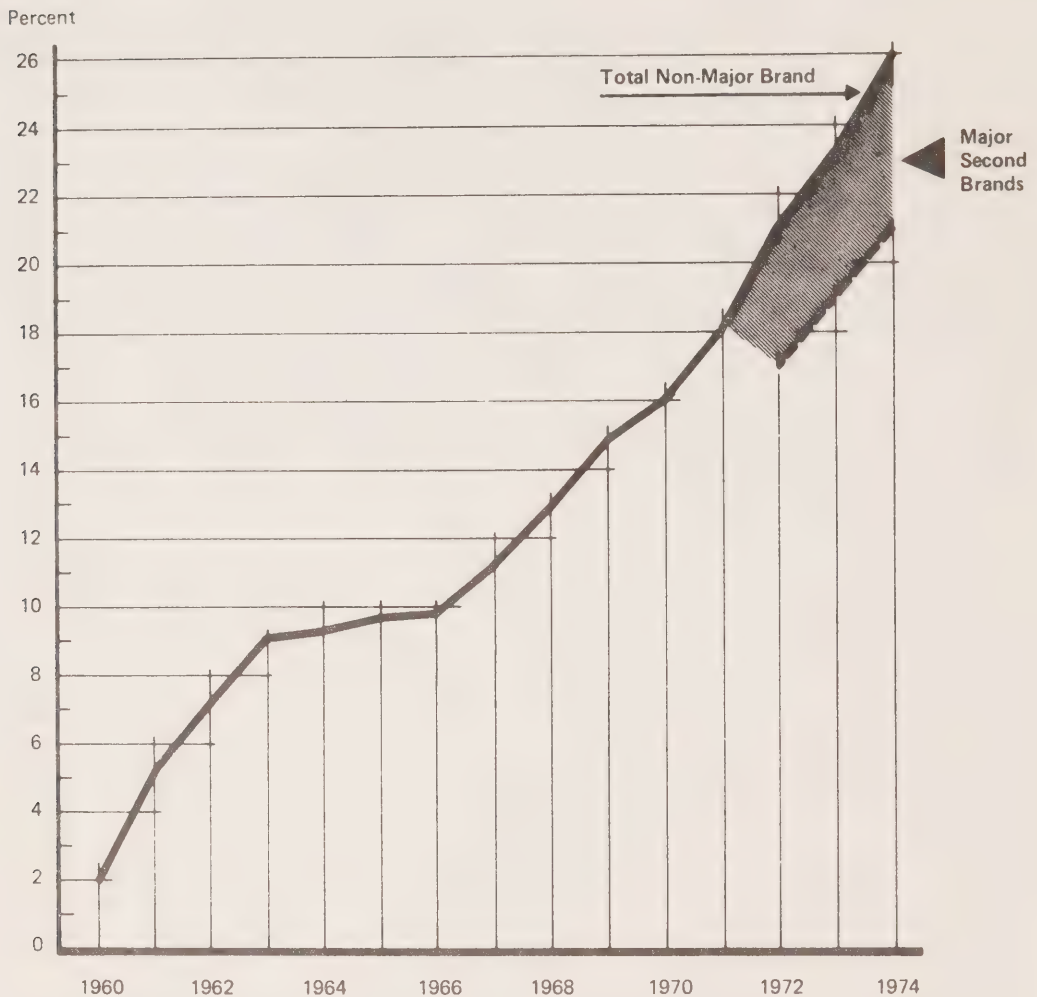
When tariffs on gasoline were raised again in September 1930, refinery capacity in Canada grew despite a declining market for gasoline. Marketing firms possessing refinery capacity but also relying on imports led the way in expanding overall capacity.<sup>8</sup> In other instances, as in the case of the co-operative distributors in Saskatchewan, a refinery was built by a group that, up until this time, had only been involved in marketing. The Co-ops built their own refinery in Saskatchewan following the takeover of two independent western refineries by Imperial and British American and the subsequent increase in the wholesale price of gasoline by 3 cents per gallon.<sup>9</sup>

During the 1930s, the structure of the Canadian refining and marketing system took on its modern form. By 1934, five major refiners — Imperial, McColl-Frontenac (Texaco), BA, Shell, and Canadian Oil — controlled 1,537 of a total of 2,255 service stations. Of these, Imperial possessed 668 stations. Six large independents, including Irving and Supertest, operated 349 stations, while eleven other independent resellers owned the remaining 359 stations.<sup>10</sup> Refining was more concentrated than marketing with Imperial controlling 81.5 percent of capacity in 1930. During the next three decades, other marketers entered the refining sector. By 1940 Imperial's control of Canadian refining capacity had declined to 55.9 percent and by 1958 Imperial controlled 38.5 percent of refining capacity.<sup>11</sup> This decline of Imperial during the 1950s resulted from the entry of new refiners. Nationally, BA (Gulf), Texaco, Shell, and Canadian Oil expanded refinery operations. In certain regions, Sun Oil, Cities Service, Irving, and Standard of British Columbia all built refineries by the 1960s to supply their established service stations. Petrofina and British Petroleum (BP) moved into Canadian refining and marketing simultaneously; BP later acquired Cities Service. In the late 1960s, Ultramar built a refinery in Quebec to export products and to supply its Canadian marketing network.

In their internal documents the refiners acknowledge that in the late 1950s their marketing networks were expensive to operate because the volume pumped at each station was low. The majors offered only one high-cost, high-priced standard of service to Canadian motorists. In contrast, the independents offered a variety of standards of service, generally at lower prices and substantial numbers of motorists were willing to choose this alternative.

FIGURE 1

## GROWTH IN SHARE OF SALES OF NON-MAJOR BRANDS, ONTARIO, 1960 - 74



Source: Ontario Royal Commission on Petroleum Products Pricing, July 1976, p. 73.

Consequently, with the increasing availability of imported gasoline, independent resellers began to make inroads into the market.

Some independents offered gasoline together with an equivalent level of major brand service but at prices substantially below those being charged at the majors' full service outlets. Others sold gasoline at even lower prices by offering a reduced level of service, often excluding automobile maintenance facilities or credit cards. Among the former were the mass merchandisers — Simpsons-Sears, Canadian Tire, and Woodwards — which successfully estab-



lished high-volume stations in association with their store locations. The latter included smaller chains — such as Rosen in Kingston, Pioneer in Hamilton and Southern Ontario, and Top Value in Ottawa — who profitably operated some ten to thirty stations densely distributed within a fairly limited geographic region.

Figure 1, taken from the 1976 Ontario Royal Commission on Petroleum Products Pricing, illustrates the extent of the independents' incursion into retailing of gasoline products in Ontario during the 1960s and early 1970s. A similar pattern emerged in Quebec. Although the expansion of the independents in western Canada commenced somewhat later, they have been no less challenging to the majors.

The data in Figure 1 group all gasoline sales to consumers through non-major brand outlets into a single category, including the second brand outlets owned and operated by the majors. This method of presenting information about the role of independent resellers in the market can be misleading and conveys an exaggerated impression of the independent resellers' share of the gasoline market. However, whatever difficulties there may be in treating the heterogeneous group of retailers as a single entity, it is certain that between 1958 and 1973 the independents impressed upon the majors that their hold over gasoline marketing was threatened. They demonstrated to both the national and regional majors that the independents were capable of operating at lower cost, undercutting the relatively high priced major brands, and taking substantial volumes of retail sales away from them.

The Volumes of this submission on refining and marketing document the monopolistic practices used by the majors to contain the threat of what appeared in the late 1950s to be a newly emerging system of gasoline distribution outside their control. The threat is illustrated by events in the Toronto area (Table 11). The independent retailers' share of gasoline sold in the Toronto market began rising in 1958 and peaked temporarily in 1962. Interestingly, the market share of all independents, excluding Canadian Tire, remained at 4 percent throughout the period. Canadian Tire was the most important entrant in the Toronto market, beginning gasoline operations in 1957. By 1962 Canadian Tire was selling 8.3 percent of the gasoline in Toronto through only nine stations. All the other independents combined sold half as much as Canadian Tire from sixty-two stations.<sup>12</sup>

Though Toronto experienced the most dramatic case of entry by a determined private brand, the independents also provided competition in Vancouver. A British Columbia government report indicates that Woodward's and Simpson's-Sears were leading entrants in the Vancouver area and that private brands accounted for 10 percent of sales in 1961. As a result, retail prices in Vancouver were reported to have been as much as 8 to 16 cents per gallon below prices elsewhere in British Columbia.<sup>13</sup>

TABLE 11

GROWTH OF MARKET SHARE OF INDEPENDENT RESELLERS, TORONTO,  
1958-62

	1958	1959	1960	1961	1962
Outlets	(Number)				
All private brands	46	52	54	60	71
Canadian Tire	1	2	5	8	9
Excluding Canadian Tire	45	50	49	52	62
Sales	(Millions of Gallons)				
All private brands	8.3	16.5	18.4	21.2	35.7
Canadian Tire	1.2	2.3	8.3	12.6	21.9
Excluding Canadian Tire	7.1	14.2	10.1	8.6	13.8
Sales per outlet					
Canadian Tire	1.2	1.15	1.66	1.58	2.43
Private brands excluding Canadian Tire	.158	.284	.206	.165	.222
	(Percent)				
Annual market share					
All private brands	3.9	7.2	7.9	8.4	13.5
Canadian Tire	0.6	1	3.5	5.0	8.3

Source: S.G. Clarke, from data provided by Imperial Oil.<sup>12</sup>

The independents did not expand as rapidly in the rest of Canada. In Montreal, "cut rate marketers" were selling 3.8 percent of the gasoline in 1961, up from 3.3 percent in 1958.<sup>14</sup>

Between 1957 and 1963 price wars occurred in Toronto and other markets where the new distribution techniques seemed to be taking hold. By 1963, however, these price wars had largely come to an end after the majors had used consignment and temporary allowance programs to reduce their own prices and discipline the independents.<sup>15</sup> Having disciplined the independents, the majors, led by Imperial, were able to restore wholesale-retail margins to their previous high levels. Between 1964 and 1970 the combined wholesale-retail margin earned by Imperial, the price leader, rose steadily from 10.2 to 17.6 cents per gallon.<sup>16</sup>

During the latter half of the 1960s, Imperial estimated that private-brand dealers in certain geographic areas were pricing 2 to 5 cents per gallon below Imperial, but these pockets were not extensive enough nor was the difference large enough to turn much of the market away from the majors. However, by 1970 this difference had reached somewhere between 6 and 12 cents in Toronto and 10 to 12 cents in Hamilton.<sup>17</sup> With differentials of this

magnitude, the independents' market share, which had remained stable during the mid-1960s, began to expand much as it had in the late 1950s.

Shell reported that the independent marketers, between 1969 and 1972, "increased their market penetration in Canada by 50% to the current level of 12%". Imperial estimated that the private brand share of the gasoline sold in Ontario grew from 9.3 percent in 1964 to 11.0 percent in 1968, 12.5 percent in 1969 and 14.6 percent in 1970.<sup>18</sup>

In Montreal, Gulf reported that private brand sales increased during the same period.<sup>19</sup> In contrast to those in Toronto, the independents in Montreal had more access to offshore gasoline since imports into Quebec were allowed under the National Oil Policy, but were not allowed into Ontario. Gasoline imports, whose share of the Quebec market was as low as 4 percent in 1965, accounted for 11 percent of the market in 1970.<sup>20</sup>

In the 1970s, the majors adopted more sophisticated disciplinary techniques against the independents than they had relied upon in the early 1960s. The majors consciously avoided "price deterioration to achieve volume objectives".<sup>21</sup> Instead, they endeavoured to confine discounting to certain pockets while continuing to elsewhere reap high margins on gasoline sales. In addition to requesting that Ottawa enforce the National Oil Policy against transfers of imported products, the majors met the new thrust of the independents by intensifying the campaign to contain their growth. Key tactics included the restructuring of price zones, the use of consignment and temporary allowances, and the emergence of major owned-and-operated second brand stations designed as "fighting brands."

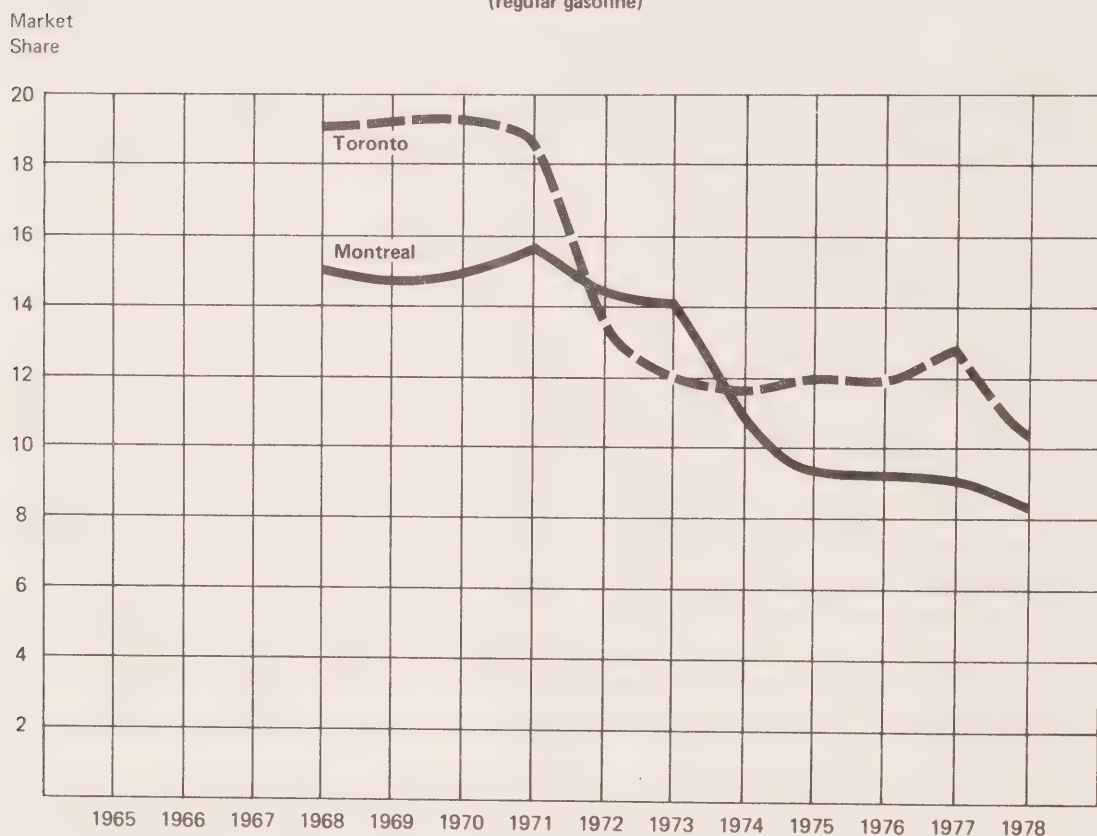
By December 1972 Imperial Oil and Shell had 81 and 82 unbranded stations, respectively; Gulf had 29; Texaco, 28; Sunoco, 16; and BP, 14.<sup>22</sup> Imperial's second brands included Econo, Gain, and Champlain; Shell's were called Beaver, Gas Mart, and Savex; Texaco's were generally known as Regent; Gulf's included a long list of names such as Royalite, Western, Para-gas, Ideal, Canadian, Globe, Flash, Gunning, Miller, and Empire. This network of second brand stations not only drained sales volumes from independents but also influenced the sales of branded dealers in the areas where they were located. Consignment and temporary allowances were used to lower branded prices so as to complement the second brand programs in such a way that the independents were given a "twofold jolt".<sup>23</sup> These techniques —second brands, consignment, and temporary allowances— were considered by the majors to have been successful because private brand growth was contained without the majors reducing the marketing profits earned throughout the larger part of their networks.

Events starting in 1970 with the National Energy Board's import licensing scheme and culminating in the world supply crisis in 1973, which at first reduced and then cut off the independents' import supply option, provided



the majors with an ideal opportunity to reverse rather than just stem the independent resellers' growth. The monopolistic situation enjoyed by the majors at the refinery level was exploited so as to place added pressure on the independents' position in the marketing sector. The majors increased the wholesale price of gasoline charged to resellers while reducing retail prices of their brands at the pump. This action, as would be expected, put great pressure on the independents, since they were prevented from recovering the higher cost of their supply in the market place. The result was that the majors, and especially Imperial, "squeezed" the independents by continuing to be aggressive price-cutters in those zones where independents were located. These squeeze tactics, coupled with the refiners action of reducing supply to independent resellers who were no longer able to turn to offshore gasoline as an alternative source of supply and as a bargaining lever with refiners, reduced the ability of the independents to compete and led to a fall in their market share.

FIGURE 2  
INDEPENDENTS' MARKET SHARE OF SALES, TORONTO AND MONTREAL: 1968 - 73  
(regular gasoline)



Source: Statistics Canada, Service Bulletins # 45-006 and # 57-002.

Figure 2 traces the market share decline of Toronto and Montreal independents over the 1968 to 1978 period. In 1968 Statistics Canada began reporting the number of retail stations and the volume of gasoline sold by stations under a “refiners” brand and “others”. Unfortunately, the “others” category includes many of the second brand stations owned by the major oil companies. It is estimated that as much as 30 percent of the gallonage reported as sold by “others” was in fact sold through “refiners” outlets. Yet even neglecting the overstatement of the independents’ component of the “others” market share, this group’s market position declined substantially in Toronto and Montreal in the early 1970s. In Toronto, the “others” category fell from 19.8 percent in 1968, to 12.1 percent in 1973 and 10.4 percent in 1978. In Montreal, Champlain, a wholly owned subsidiary of Imperial Oil, was reported in the “others” category until 1974 so that only from 1974 onwards is the data meaningful. Between 1974 and 1978, the “others” market share falls from 10.7 percent to 8.3 percent.

### (c) *Heating Oil Marketing*

Next to transportation, the greatest demand for energy in Canada stems from the need to provide heat to the household, commercial and industrial, and rural markets. Fuel oils satisfy a portion of this demand. The availability of alternative fuels causes the demand for fuel oil to vary from region to region. Since the late 1950s, when natural gas from western Canada became available in Ontario and British Columbia, the demand for fuel oil has increasingly been concentrated in Quebec, the Maritimes, and those parts of Ontario where natural gas has not yet been introduced. In recent years, the demand for fuel oil has diminished somewhat and it is expected that this trend will accelerate as a result of both the federal government’s policy of encouraging the use of natural gas and the increasing use of electricity in Quebec.

The period immediately following the Second World War was characterized by a sharp increase in the demand for fuel oil as it replaced coal and wood as a source of heat. In the early 1950s the four major refiners — Imperial Oil, British American (Gulf), Shell and Texaco — were well established in Ontario and Quebec. The combined capacity of these refiners in 1950 was sufficient to satisfy almost all of the demand for fuel oil.<sup>24</sup>

Initially, the refiners relied heavily on independent resellers to market their production although they also used their own tank truck dealers and consignees. This method of disposing of production at wholesale was preferred by the refiners as it avoided the higher costs inherent in operating their own distribution networks.

In Quebec, the increase in conversion from wood and coal to fuel oil and the absence of a supply of natural gas in the post-1958 period resulted in a sharp growth in the market for fuel oils. With this expansion of demand the independent segment grew in importance.

The Quebec market also attracted two new refiners — Petrofina Canada and British Petroleum. To support their new refineries, the two new regional major companies competed for jobber business with the majors and also began to integrate forward through the acquisition of some independents. The increased competition from the regional majors resulted in lower netbacks to all refiners from jobber business. Faced with this situation, the majors embarked on an acquisition campaign of their own. The remaining independent resellers reacted to the competition in the retail market from the refiners by lowering their prices.<sup>25</sup>

Additional competition in the Quebec fuel oil market evolved in the post-1958 period as world markets made price-competitive imports available in substantial quantity. In Ontario, this source of competition was diminished since, beginning in 1961, imports of crude and refined petroleum products were supposed to be confined to regions east of the Ottawa Valley under the National Oil Policy. In Quebec a major source of imported product was provided by terminal operators,<sup>26</sup> who were non-refiners with the capability to import and store large quantities of product. These new entrants to the market developed volumes through sales to independent retailers. In doing so, the terminal operators provided an alternative source of supply to the independent retailing sector.

The independent resellers were able to provide effective competition at the retail level because of the lower cost of their owner-managed operations. Recognizing the greater efficiency of the independent sector,<sup>27</sup> the refiners, led by Imperial, reacted to jobber competition by establishing, in 1963, free burner service.<sup>28</sup> Simultaneously, they pursued a policy of acquiring independent resellers.<sup>29</sup> Second mortgage financing on new homes, the granting of subsidies to house builders and the installation of pipeline delivery systems were other marketing strategies used by the oil companies<sup>30</sup> and had the effect or tendency of undermining the strength of the independent distributors. These practices could lock new customers to a major oil company for fuel oil supplies and thereby discourage entry into the market by independent resellers.

The movement by the refiners to control the retail distribution of fuel oil by acquiring jobbers and selling directly to the end-user market continued throughout the late 1960s and into the early 1970s. The number of such takeovers between 1961 and 1976 is high. Information supplied by the oil companies reveals that Shell alone acquired 163 independent fuel oil distributors, of which 102 were in Ontario and 28 in Quebec. During the same period, CFM, (acquired by Shell (U.K.) in 1969) bought 73 independents, of which 38 were in Ontario and 33 in Quebec. Between 1961 and 1971, Gulf acquired 24 and Texaco bought 12 independents. Appendix E of this volume contains a list of fuel oil distributor acquisitions by Imperial, Shell, Gulf and Texaco.



Nonetheless, in Quebec the independent sector retained its viability because of its continued access to low-cost imported product. In the period 1954 to 1971 imports into the Quebec market did not go below 13 percent of total sales and reached such magnitudes as 32 percent in 1955, 25 percent in 1959 and 29 percent in 1964.<sup>31</sup> The existence of this alternative supply served as a lever by which the independents were able to negotiate supply contracts with the refiners for domestic product at competitive prices. In contrast, the independent segment in Ontario declined substantially and has largely been restricted to those parts of Ontario having access to the Montreal import market.

(d) *Conclusion*

Throughout the period under review, the market share of the independents was constrained by the practices of the majors. Even when offshore supplies were available to the independents, their commercial advantage remained largely unexploited and unrealized. The monopolistic practices that the majors were able to employ offset the economics of gasoline distribution, which otherwise favoured the success of the independents.

## Notes

1. The Suez crisis of 1956-1957 was precipitated by Egypt's nationalization of the Suez Canal in July, 1956 and their blockade of the Canal between October, 1956 and April, 1957. During the blockade supplies of Mid-East crude oil were shut off and forty oil tankers were sunk in the Canal. The crisis subsided in 1957 after intervention by a United Nations emergency force of occupation.

The disruption of Mid-East oil supplies and the upheaval in the ocean tanker market caused a sharp upward movement in freight rates. These factors made Canadian crude oil very attractive in District V\* of the United States, as reflected in the table below on Canadian export statistics. However, this advantage was short-lived. Following a period of adjustment after the canal reopened in April, 1957, plentiful supplies of Mid-East crude oil became available and low tanker rates returned.

CANADIAN CRUDE OIL PRODUCTION AND EXPORTS  
1955-1960  
(Thousands of barrels per day)

YEAR	PRODUCTION	EXPORTS
1955	361	46
1956	476	116
1957	505	151
1958	462	82
1959	522	92
1960	544	113

Source: Alan Plotnick, *Petroleum: Canadian Markets and United States Foreign Trade Policy*, (Seattle: University of Washington Press, 1964), p. 5.

\* District V includes the states of California, Washington, Oregon, Nevada and Arizona.

2. J.E. Gander and F.W. Belaire, *Energy Futures for Canadians: Long-term Energy Assessment Program*, (Ottawa: Energy, Mines and Resources Canada, 1978), p. 303.
3. S.L. McDonald, "Conservation, Regulation and the Elements of a National Energy Policy", in *The Energy Question: An International Failure of Policy, Volume 2, North America*, edited by E.W. Erickson and L. Waverman (Toronto, 1974), p. 341.
4. D. Campbell, *The Impact of Seller Concentration on Market Performance — A Comparative Study of the Canadian and American Petroleum Refining and Marketing Industries*, Ph.d. Thesis, Cornell University, 1966, pp. 33-40, 135, 137 and 138-9.
5. *Ibid.*, pp. 134-9.
6. The establishment of a network of service stations has been deemed necessary by all Canadian refiners except Petrosar. Petrosar is principally in the business of refining crude oil into petrochemical feedstocks so that its production of gasoline, heating oil, and residual fuel is secondary and has had relatively little impact on the Canadian market. Two firms — Petrofina and BP — planned the acquisition of a marketing network together with the building of a refinery in Canada, but they both controlled international sources of production and were seeking marketing outlets. This is an example of forward integration into refining and marketing rather than new entry into the industry.

7. Campbell, *The Impact of Seller Concentration*, p. 27 and p. 33.
8. *Ibid.*, pp. 41-5. The September 1930 tariff on gasoline imports was raised from 1 to 2 cents per gallon. See *Tariff Board, Crude Petroleum and its Derivatives*, Reference 84, 1936, p. 169.
9. Campbell, *The Impact of Seller Concentration*, pp. 55-6.
10. *Tariff Board, Crude Petroleum*, p. 157.
11. Campbell, *The Impact of Seller Concentration*, p. 8 and p. 126.
12. S.G. Clarke, *Public Policy and the Retail Distribution of Gasoline*, unpublished masters thesis, Queen's University, 1964, p. 111.
13. G.D. Bishop and R.B. Green, *An Examination of Current Motor Gasoline Price Differentials in British Columbia*, Bureau of Economics and Statistics, Department of Industrial Development, Trade and Commerce, Victoria, B.C., November 1961, pp. 5-6.
14. Campbell, *The Impact of Seller Concentration*, p. 168. An Imperial Oil chart (Petroleum Inquiry Document # 123851), while indicating "private branders" had a slightly larger share than suggested by Campbell, shows virtually no growth in this share between 1958 and 1961.
15. *Globe and Mail*, July 11, 1963. Reported "Gasoline Price-War Armistice in Sight" and quoted Canadian Tire's acceptance of the majors' leadership: "We'll have to move up with the rest of them, we don't initiate price action we follow."
16. Petroleum Inquiry Document # 179672, Imperial Oil.
17. Petroleum Inquiry Document # 179731, Imperial Oil.
18. Petroleum Inquiry Documents # 30074, Shell Canada, and # 179672, Imperial Oil.
19. Petroleum Inquiry Document # 67251, Gulf Canada.
20. Statistics Canada, Service Bulletin #45-204.
21. Petroleum Inquiry Document # 32926, Shell Canada.
22. Petroleum Inquiry Document # 45784, Texaco Canada.
23. See footnote 14 in the previous section, The Structure of the Petroleum Industry.
24. Petroleum Inquiry Documents # 49795-6, Texaco Canada.
25. Petroleum Inquiry Documents # 49802-4, Texaco Canada.
26. Those companies comprising the terminal operator group are listed in Chapter I, note 24.
27. The greater efficiency of the independent sector is acknowledged in a Shell Canada document that discusses the business of an independent Shell was interested in acquiring:
 

"Romeo probably also had the ability, typical of small businessmen in general, to operate at costs which major companies will never duplicate. His operation will almost certainly fare less well as one more district of Shell Canada."

(Petroleum Inquiry Document # 36154, dated March 1973, Shell Canada)
28. Imperial Oil's initiative to combat jobber competition made it easier for the refiners to acquire independent distributors as the following extracts from a Texaco document attest:
 

"Imperial Oil established, in 1963, free burner service to combat jobber price competition. The other oil companies followed suit. The small and medium sized jobbers felt the pinch of this cost and began to sell out."



The availability of jobber business began to dwindle because of continued acquisitions by refiners, speeded up by the increasing inclination of remaining jobbers to sell out."

(Petroleum Inquiry Document # 49804, Texaco Canada)

29. The acquisition of the independents and hence their removal from the market as competitors was viewed as a positive step towards a greater stability of prices and market shares in the retail market as was indicated by the following excerpt from a Texaco document:

"Another long run benefit when all the retail fuel volume is in the hands of refiners, is the probability of a more stable price structure at the retail or household end, and a more readily retained share of total market, a combination which is a worthwhile ultimate objective of every refiner/marketer."

(Petroleum Inquiry Document # 7439, dated July 22, 1967, Texaco Canada)

30. Petroleum Inquiry Documents # 33745-6, Shell Canada.

31. Statistics Canada Catalogue, # 45204.

## PART B

### THE FINDINGS OF THE INQUIRY

#### 1. *Introduction*

The activities of the industry fall into four distinct categories: crude oil production and acquisition, transportation, refining, and marketing. The following sections briefly summarize the findings of the petroleum inquiry in each of these areas.

Because Canada used both domestic and imported crude oil, the analysis of crude oil acquisition and production has been divided into two submissions. The first deals with the international sector and the degree to which the importation of crude into Canada was controlled by a small group of firms who were able to maintain crude import prices above world levels.

The second reviews domestic production and the transportation system. This material demonstrates how the industry, led by Imperial, established a mechanism that set the price for Canadian crude oil.

A third volume reviews the material relating to the refining sector and demonstrates the degree to which the majors were linked together in this sector and were able to effectively act as a unit.

The fourth volume concerns the marketing of petroleum products and outlines how the majors were able to utilize disciplinary strategies to restrain more efficient competitors: the independent marketers. Finally, in the conclusion, the linkages between the various sectors are developed. The monopolistic situation or practices found at each level of the industry were magnified by the policies followed by the major vertically integrated firms at other levels.

#### 2. *The International Sector*

The Canadian market for petroleum products has been supplied by crude oil from both domestic and imported sources. The market served by imported crude has changed with time. Prior to the implementation of the National Oil Policy in 1961, Ontario refineries used both imported and domestic crude. After that date, imported crude oil was restricted to that part of Canada east of the National Oil Policy Line, which ran from the Ottawa Valley to Kingston. Thus the National Oil Policy established two distinct markets. The first was, a 'domestic' market west of the National Oil Policy Line reserved for Canadian crude. The second, east of the Line, was exposed to competition emanating from the international crude oil market. The eastern market however was not one homogeneous market. The greater size and density of the Quebec and eastern Ontario (hereafter the Quebec) market attracted more participants than the smaller, more dispersed Maritimes market.

Internationally the seven largest multinational integrated petroleum companies, known as the 'Seven Sisters', Standard Oil of New Jersey (Exxon), Mobil, Standard Oil of California (Socal), Texaco, Gulf, the Shell group, and British Petroleum, dominated the non-communist, non-North American 'world' crude market. In 1957 this group commanded 89 percent of 'world' crude production and by 1969 their share was still 76 percent. However, in the 'world' market, the effective concentration level attained by the 'Seven Sisters' appears to have been even higher than these simple percentages suggest, because of the extensive linkages between, and the interdependence that developed among them. In some cases the interdependence among these firms resulted from joint operating projects, such as joint exploration, ownership, production, and transportation projects. In other cases, their interdependence developed through long-term supply contracts.

Control over crude oil imports and importation into eastern Canada rested with the Canadian subsidiaries of four of the seven largest multinational petroleum companies. Most of these Canadian subsidiaries, although controlled by a multinational parent, had some Canadian shareholders. A monopolistic situation which developed through the small group of firms with closely linked interests governed the performance of the eastern Canadian market through its control over imports. The extent of control exerted by the large multinational oil companies over crude sources and the close links that developed among these firms meant that they had the potential to exploit various downstream markets — especially in Canada where the importation of crude was concentrated in their hands.

The subsidiaries of the 'Seven Sisters' that dominated crude oil imports in the Quebec market included Imperial Oil Limited, Gulf Oil Canada Limited, Shell Canada Limited, and Texaco Canada Limited. Other firms — BP Canada Limited, Sun Oil Company Limited, and Petrofina Canada Ltd. — also imported crude, although they occupied a subordinate position in the Quebec crude market. The dominance of the four majors and the practical monopoly of these four along with BP, Sun Oil, and Petrofina is shown in Table 12. This Table also indicates that the share of imports for the whole group, as well as that for the four largest majors, declined over the 1960-1973 period. Notwithstanding this decline, this group of integrated multinational subsidiaries held at least 80 percent of the market in 1973.

Ultramar, a 'lesser' integrated multinational petroleum company, captured the major portion of the decline in the share of the dominant group. Further, during the 1970-73 period when Ultramar acquired a share of the Quebec market, its parent was negotiating and concluding a complex international asset sale and supply-processing agreement with Texaco's parent. As a result of this international arrangement, Texaco Canada was linked to Ultramar through its commitment to take refined products from Ultramar's new refinery.



TABLE 12  
SHARE OF CRUDE OIL IMPORTS, QUEBEC 1960-73  
(percent)

	1960	1965	1970	1973
Imperial, Gulf, Shell and Texaco	84	74	69	61
BP, Sun Oil, and Petrofina	16	24	24	19
Total	100	98	93	80

(Volume III, p. 6).

Control of crude imports in the Maritimes market, was also mainly in the hands of a smaller subset of firms which were subsidiaries or associates of multinational firms. In the Maritimes, control was even more concentrated than in Quebec. Three of the four Maritimes importers — Imperial, Texaco, and Gulf — were multinational subsidiaries. The fourth — Irving — although not a multinational subsidiary was closely associated with, and dependent for crude supply on, Standard Oil of California. Table 13 shows that in the Maritimes market the total market share of the dominant importers declined only slightly with the major participants consistently controlling over 90 percent of the crude oil imported during the period.

TABLE 13  
SHARE OF CRUDE OIL IMPORTS — THE MARITIMES, 1960-73

	1960	1965	1970	1973
	(Percent)			
Imperial, Texaco and Gulf	100	54	55	57
Irving	0	39	36	36
Total	100	93	91	93

(Volume III, p. 6).

### (a) *Importers' Transfer Price Policies*

Analysis of the interaction between the exporting multinational parents and their importing Canadian subsidiaries reveals that the potential or discretionary economic power inherent in their control of Canadian imports was used to exploit the downstream market for imported crude in eastern Canada.

While the power that allowed the companies to exploit the Canadian market was rooted in the world cartel market structure, the mechanics of the exploitation rested in the internal pricing arrangements that developed between individual parents and their subsidiaries.

In this period in which the 'Seven Sister' subsidiaries dominated the eastern Canadian market for imported crude, the world market price for crude steadily declined until OPEC-instigated price increases reversed the trend in the early 1970s. During the period, the subsidiaries of the major multinationals were consistently charged "unrealistic" transfer prices for crude that were higher than world market, or arm's-length, prices. Various internal analyses by the importing subsidiaries repeatedly demonstrate that the Canadian subsidiaries were paying higher than arm's-length prices for their crude; that the parent exporters were dictating these prices; that the subsidiaries were well aware of the size of the premium being paid; and, that the premium resulted in high prices for refined products. Taken together, the high transfer prices for crude and the resulting high prices for refined products indicate that the monopolistic control impacted on the public interest.

The sizable transfer price premiums paid to the offshore parent multinationals by the Canadian subsidiaries adversely affected the Canadian economy. First, the high transfer prices paid caused Canadians to pay high product prices. As a result multinational companies earned higher revenue from their Canadian subsidiaries. Accordingly, high transfer prices generated relatively higher pre-tax profits on the Canadian business.

Second, the payment of higher than arm's-length prices to the offshore parents transferred both the profit earned from Canadian business and taxes payable thereon to foreign tax jurisdictions selected by the parents. In this way, high transfer prices for crude also increased the after-tax profits accruing to the multinational parent firms by minimizing global tax exposure.

Interest has often focused on high transfer pricing policies because they are the instruments both for creating and exporting monopolistic profits from a particular market. While high input transfer prices may be used by a monopolist to achieve those ends, they may also serve the same purpose for an oligopoly. High transfer prices for inputs can provide the small number of firms in an oligopoly with a convenient focus for harmonizing their own, or their subsidiaries', behaviour in downstream markets where high transfer prices for inputs are imposed. Where this is the case, high transfer price policies can reduce the level of competitive activity in the affected market. Moreover, since high input costs tend to be reflected in, or to force, high output costs — especially where domestic minority interests or vigilant tax authorities prevent operating at an artificial loss — they tend to create a relatively stable as well as a high price at which the reduced level of competitive activity takes place.

The effect of the higher than arm's-length transfer pricing policy on prices for refined products was the result of its widespread adoption by those firms that imported crude oil into Canada. It was not the fact that just one company followed the policy of extracting comparatively high transfer prices from its Canadian subsidiary that affected the performance of the Canadian market so adversely. Rather, poor market performance occurred because most of the majors followed a similar policy.

The common higher than arm's-length transfer pricing policy did not develop by chance. Although several methods kept the various major importers' policies in harmony, the degree of harmonization achieved was mainly due to two factors. First, the individual commitment to and execution of the transfer pricing policy ensured the commonality that was required for its success and prolonged the adverse economic effects that it entailed. Second, harmonization was facilitated by the close links that existed between the multinational parents overseas. Nevertheless, the multinationals were not able to rely on a single arrangement to produce harmony in different downstream markets. Varying conditions in downstream markets forced the multinationals to adapt their arrangements to best suit local environments. Accordingly, a degree of local harmonization was sometimes required.

In the international sector, no one instrument or type of arrangement was universally applied to co-ordinate policies; rather, the industry relied on a set of different arrangements that made individual behaviour both harmonious and relatively predictable in the face of differing local circumstances. In the early period, the degree of concentration in the world crude market and the ability of the world cartel to keep prices at "posted" levels made the harmonization of transfer prices relatively easy. In the period prior to and including the early 1960s, most of the multinational parents determined the transfer price charged their individual subsidiaries by reference to an average of the posted price of other multinational companies. Thus similar policies focusing on a common reference point led to harmonized prices at high levels for the importing Canadian subsidiaries.

By the middle 1960s, the strategy of relying upon posted prices to harmonize transfer pricing policies was no longer feasible. Taxation authorities now recognized that posted prices were unrepresentative of arm's-length transaction prices. The tax authorities questioned the validity of transfer prices that were at or only slightly below "posted prices" because these prices were well above "fair market value". As a result, the multinationals were essentially faced with a new constraint that varied country by country, depending upon the attitude of local taxation authorities and harmonization required that greater recognition be given to local conditions.

As a result of this development, there were now two reasons to harmonize transfer pricing policies. The first was that, as before, harmonization



served to reduce oligopoly rivalry; common input costs reduce the advantages that one firm can develop over another and tend to reduce the propensity of price competition to develop in oligopolistic markets. The second reason was that harmonization of policies served to reduce the threat that the Canadian tax authorities presented to the high transfer pricing practices of the various importers. As Sun Oil noted, its organization was "ahead as long as the Canadian tax authorities recognize these high prices fully as costs, *despite their basic unreality*" (emphasis added). (Volume III, p. 25) Maintenance of unrealistically high transfer prices depended upon the successful harmonization of transfer pricing policies; otherwise the tax authorities could have challenged the high prices of some companies by reference to the lower prices that others were charging.

Negotiations between the Department of National Revenue and the importers sought to identify new transfer pricing levels that would better reflect "fair market value". Recognizing that success in persuading the tax authorities to accept high prices, even though they were unrealistic, required the adoption of similar high prices. Therefore the various firms ascertained what others were doing and fashioned their strategies accordingly. Communication between importers would have allowed each to present a position on the issue to the tax authority consistent with that of other importers. Among other matters, such inter-importer communications included: the position adopted by leading importers with the Department of National Revenue; third-party Canadian transfer prices; crude pricing practice in other markets; analytical studies of the world crude market; and, the *modus operandi* of using offshore traders. Eventually the industry was able to persuade the tax authorities to accept prices that, while lower than previously reported, were still above arm's-length prices. As a result, transfer prices charged the Canadian subsidiaries were maintained at "unrealistic" levels for the rest of the decade.

The success of the industry in preserving high transfer prices in the face of the challenge offered can be attributed to their successful harmonization of their transfer pricing policies. While the actual transfer prices used by individual firms varied over the period to accommodate both individual corporate circumstances and exogenous changes in the environment, the transfer pricing policies used were generally similar in that they led to higher than arm's-length prices. The major importers were thus able to maintain both analogous transfer pricing policies and the high harmonized price structure for crude oil imports. While the latter was at least temporarily accepted by the tax authorities (National Revenue subsequently challenged the prices used in this period), the companies recognized that the prices that they continued to pay remained above the arm's-length levels established in world market trading.

### (b) *Leadership and Harmonization*

The precise method of implementing the higher than arm's-length transfer pricing policy varied from company to company as each parent's ability to charge and benefit from higher than arm's-length transfer prices depended on control of the subsidiary and command over crude supply.

Early in the period, before the tax authority intervened to challenge the posted price basis of transfer pricing, the parent firms set the price for their individual subsidiaries by reference to the posted prices of other majors. Independent behaviour based on a recognition of mutual interdependence was responsible for the harmonization of transfer pricing policies throughout the period. While recognized mutual interdependence between formally independent firms may manifest itself in any of several distinct behavioural patterns, one of the simplest responses for interdependent firms is to acquiesce in the behavioural pattern established by an obvious 'leader'. Most firms in the import-dependent markets adopted a variant of Imperial's policy that, while it best suited individual circumstances, remained sufficiently consistent with the leader's behaviour to preclude the emergence of any significant, individual competitive advantage. As a result, Imperial became the *de facto* leader and held a price umbrella over the import-dependent markets of eastern Canada.

Imperial's parent Exxon had, by 1958, long been the leading producer of crude oil in the non-communist world. Within the Canadian economy, its Canadian subsidiary — Imperial — enjoyed a similar leadership role. Imperial recognized that its pricing policies provided the standard for the rest of the importers. As a result, Imperial played the role of a price leader — knowing that its lead would be generally followed by others. Because the transfer price for oil of Imperial's sister importers was either directly or indirectly linked to Exxon's transfer price, Imperial's price was harmonized in this earlier period with the others simply by virtue of its leadership position.

Gulf's parent initially was the most thorough of the majors in setting its importing subsidiary's price by reference to the posted prices of its competitors. Between 1955 and 1959 Gulf's transfer price was set equal to the average of the U.S. Gulf Coast posted prices of Humble (Exxon's U.S. subsidiary), Texaco, Shell, Magnolia (owned by Mobil), Stanolind, (a Standard Oil of Indiana subsidiary), Carter, and Sinclair (owned partially by Arco and partially by British Petroleum). Subsequently, in 1959 this process was simplified as Gulf's transfer price for Venezuelan crude was set equal to Exxon's posting alone, while its price for Middle Eastern crude was tied to the average postings of Mobil, Texaco, Shell, and British Petroleum.

Texaco's parent adopted a straightforward approach by tying its subsidiary's transfer price for both Venezuelan and Middle Eastern crudes to the prices posted by Creole, Exxon's major Venezuelan subsidiary.



Until 1962 most of Shell's Canadian crude imports came entirely from Kuwait. Shell obtained this oil under the terms of its long term contract with Gulf, which together with British Petroleum owned the Kuwait concession. Both the original Gulf-BP partnership agreement governing the Kuwait concession and the subsequent Gulf-Shell supply agreement contained clauses penalizing downstream price competition. In this way, Shell's transfer price was established by reference to the prices of Gulf, and indirectly to BP.

By the early 1960s, arm's-length prices had declined significantly relative to the majors' posted prices for crude from established fields. At this time the Department of National Revenue challenged the transfer prices being used by the multinationals. When the taxation authority refused to accept posted prices as fair market value, a new standard of reference had to be found if transfer pricing policies were to be harmonized. Focusing on crude prices in the country of origin would not have been sufficient for this purpose, since the evolution of larger oil tankers was causing tanker freight rates to decline. The policies followed by all four of the largest importers once more served to support the general transfer price level.

By the mid-1960s, Exxon had adopted a transfer pricing policy that not only considered what the taxation authorities might be persuaded to accept but that also set Imperial's crude price according to the price paid by the "average of competition" in the eastern Canadian market. Specifically, Imperial's price was set to equal or approximate the average of the laid down crude oil costs incurred at the refinery in eastern Canada. Exxon and Imperial in adopting this industry average reference point recognized their leadership role knowing that to do otherwise risked leading "crude prices lower in Eastern Canada". (Volume III, p. 23)

In 1965 the Gulf organization, like Exxon and Imperial, also shifted its transfer pricing reference point to a "non-aggressive" domestic benchmark. (Volume III, p. 62) In October of that year, the subsidiary and parent signed an agreement focusing on domestic refinery output values by linking the subsidiary's crude costs to the product realizations it obtained in the Montreal refining region. By simply basing its pricing policy on the other end of the refining process from Exxon, Gulf was also able to avoid the risk of leading eastern Canadian prices lower.

Together the policies followed by both Gulf and Exxon supported the general price level above arm's-length levels because adjustments were made to their transfer prices only with a lag. The technique adopted by both Texaco's and Shell's parents froze their transfer prices at domestic laid down cost levels that the Department of National Revenue had been persuaded to accept earlier in the decade. With Texaco and Shell following a price freezing strategy and with Imperial and Gulf following the "average of competition" approach, the average transfer price of this group was stabilized at a level above world arm's-length prices.



(c) *Parent-Subsidiary Relationships*

The precise method by which the higher than arm's-length pricing policy was implemented varied company by company according to individual circumstances. But each parent's ability to charge and to benefit from higher than arm's-length transfer prices depended on the control exercised over its Canadian subsidiary. This control is evidenced by the nature of the constraints imposed upon the Canadian subsidiaries by their parent corporations.

In 1980 Exxon held 69 percent of Imperial's outstanding stock. Throughout the review period, Exxon exploited this control over Imperial to impose transfer prices that were above open market, world prices; to dictate the composition — or the slate — of Imperial's crude oil supply; and to arrange the transportation for the oil. Exxon's control was such that Imperial commented "we. . . at Imperial. . . may decide. . . we want. . . oil. . . but whether or not. . . we are going to get that is not necessarily, particularly. . ." our decision. (Volume III, p. 32) Exxon exercised its control to hold the Canadian price up in the face of falling international arm's-length prices; when the downward price trend in world markets was reversed by OPEC in the 1970s, Exxon led the way in imposing market hardening premiums on its Canadian subsidiary.

Gulf's parent held 60 percent of its Canadian subsidiary's stock in 1980. Like Exxon, but using a greater variety of techniques, the Gulf parent corporation exercised its control to extract higher than arm's-length prices from its subsidiary. Similarly, it exercised control over the Canadian subsidiary's transportation business. Gulf's parent was also successful in implementing a new crude pricing policy that imposed premiums on its subsidiary, when OPEC activity reversed the declining crude price trend.

Texaco's parent in 1980 held 90 percent of the stock of its Canadian subsidiary — Texaco Canada Ltd. In parent-subsidiary contracts, the control of the parent was reflected in its power to dictate both crude prices and crude slates to its Canadian subsidiary. The crude prices adopted by the parent were, throughout the period, higher than arm's-length prices in the world market.

Texaco Canada was forced to pay its parent uncompetitive freight rates for the shipment of its crude purchases to Canada. Control of its subsidiary is also evidenced by the control the parent exercised to force the subsidiary to enter a processing agreement with Ultramar. Processing arrangements are not unusual, but the Texaco scheme was a unique exercise of parental power because, as the subsidiary noted, "neither the crude oils nor the yields were specified" at the time they were notified they would be taking product from Ultramar. (Volume III, p. 61)

Shell's parent held 71 percent of the stock of its Canadian subsidiary in 1980. Like the other majors, Shell's parent used its ownership position to extract higher than arm's-length prices for crude from its subsidiary for most of the period examined. For instance, Shell calculated that high transfer prices

exposed the company to a potential tax liability of \$17 million for the years 1967 to 1970. The extent of the parent's control emerges clearly from the way in which it operated its long term supply contract with Shell. From 1967 to 1972 this contract imposed a fixed crude price on Shell Canada to the net advantage of the parent in the face of falling world prices. In 1972, when it became possible to change the contract price provisions without incurring tax risks, the parent changed those provisions thereby managing to impose market hardening premiums on its Canadian subsidiary. As a result, by 1973 Shell's parent was earning margins on its crude sales to Shell equivalent to the high levels enjoyed prior to 1958.

The transfer pricing policies of the lesser importers are not as extensively documented as those of the majors. Some of them faced different ownership conditions or constraints than the largest four majors. Nonetheless, they were exposed to similar pricing approaches. Sun Oil Company Ltd., for example, was a wholly owned subsidiary of Sun Co. Inc. and faced none of the constraints imposed by the existence of minority shareholders. Sun also was charged higher than arm's-length prices for its crude.

Irving Oil Co. Ltd., associated with Standard Oil of California, calculated that it too paid higher than arm's-length prices for the crude it acquired from Socal.

The policies followed by the lesser importers did not disturb the relationship between the four largest importers for several reasons. First, those who used similar high transfer prices harmonized their policies with those of the majors. Sun, for instance, consciously co-ordinated its import price of crude with Texaco's since the latter was doing some processing for Sun. In addition, other firms — like Ultramar and BP — which might have had somewhat lower crude prices offered little downstream threat either because of their linkages with the majors elsewhere in the world or because their crude cost advantage was offset by disadvantages elsewhere that left them with a low level of profitability in eastern Canada.

#### (d) *Conclusion*

The general adoption of high transfer price policies for imported crude derived from a recognized interdependence between the majors. While this interdependence arose from the historic monopolistic situation in world oil markets, it was extended by inter-company crude swaps, by inter-company processing arrangements, and by inter-company communications. This served to preserve the harmonized high transfer pricing strategy established at the outset of the period and to delay the adjustment of Canadian imported crude prices to world, arm's-length levels.

The high transfer price policy emerging out of the world monopolistic situation was used to create or prolong the monopolistic situation in the domestic market.

While the harmonized transfer pricing policy provided an effective device for exploiting the domestic market and facilitated the export to Canada of the world monopolistic situation, this practice by itself would have been insufficient to sustain the monopolistic situation that developed in the Canadian market.

The development of new crude sources outside 'Seven Sister' control — the same force that drove world crude prices downwards and that sparked the tax authority's interest in posted transfer prices — threatened to provide new competition. These independent crude sources allowed the development of an independent, competitive refining sector in Europe from which the non-integrated Canadian independents could economically import refined product. These independent, competitive sources of crude and product supported the entry of new firms into the eastern Canadian market. Both the reality and the potential of such entry threatened the ability of the dominant importers to sustain control in the domestic market without recourse to other monopolistic practices. The various ways by which competition from these sources was constrained are found outside the international sector in the practices the majors adopted in the domestic refining and marketing sectors. Subsequent sections outline how the majors used inter-refinery agreements to mesh the interests of new refiners with their own, and how the majors used predatory marketing practices to discipline independent marketers who tried to expand in the marketing sector. These other monopolistic practices and conditions buttressed the effects of the transfer pricing policies of the majors. Thus the market power necessary to maintain monopoly control emerges from the majors' policies in each sector.

### 3. *The Production Sector*

Unlike the structure of the international crude oil market, Canadian domestic production is characterized by a large number of fringe producers in addition to the major firms. The four largest Canadian majors — Imperial Oil Limited, Shell Canada Limited, Texaco Canada Limited, and Gulf Oil Canada Limited — accounted for only 26 percent of production between 1956 and 1968. However several factors enabled the leading firms to develop discretionary power and to exert the same control as they did at other levels of the integrated industry.

One factor permitting this control was the concentration of hydrocarbon production in one region. Alberta accounted for the majority of crude



production, with lesser amounts coming from Saskatchewan, British Columbia, and Manitoba.

Another factor contributing to the majors' control was a pipeline system between the producing and consuming areas that enjoyed, in the words of Imperial, "a virtual monopoly for Canadian crude deliveries". (Volume IV, p. 132) The pipeline between the producing areas and eastern Canada — Interprovincial Pipe Line — was controlled by Imperial Oil. The main pipeline between Alberta and British Columbia — Trans Mountain Pipe Line — was controlled by Texaco which owned 33 percent of the pipeline compared to 8.6 percent which was owned by Imperial, Shell, Gulf and Standard Oil of British Columbia.

The main trunk pipelines were not the only lines in a monopolistic position. The gathering lines, connecting the crude fields with the main trunk lines, were not often faced with competition. In addition, ownership of the major gathering lines was concentrated in the hands of a small number of companies. Ownership of the pipelines gave the major firms substantial control over the production sector. This control was used in a number of different ways.

One way in which the discretionary power manifested itself was the degree to which the disposition of crude production was controlled by a small number of firms. Crude production was funnelled through a few purchasers of crude who had — in industry terms — "first purchase control". The crude oil acquired by this group of "first purchasers" was known as "controlled crude". Controlled crude, as defined by Shell, was

"... the oil which a purchaser either produces for its own account, purchases from other producers under lease purchase contracts, or purchases under term contracts from other purchasers or producers." (Volume IV, p. 74)

An Imperial study appreciated that concentration of first purchase control of crude in the hands of a few majors was as effective in arranging a high, stable price level as concentration in production.

In the 1950s, Imperial and Gulf dominated the purchasing sector. During the 1960s, they maintained their pre-eminent position. Imperial possessed between 40 and 50 percent of first purchase control in the 1960s; and 38 and 33 percent in 1971 and 1972, respectively. Gulf's share of first purchase control was approximately 22 percent in 1973. The Texaco organization had about 13 percent of first purchase control in the same year.

The major crude purchasers' control stemmed from their dominant position at the refinery as well as from their ownership and control of pipelines. Ownership of pipelines placed operators in a favoured position to acquire control because they had "front line exposure to information about crude oil availability". (Volume IV, p. 78) In addition, with the administered pricing

system that evolved, it was recognized that other considerations besides price, such as pipeline service, would influence the producer's willingness to commit crude oil to a particular purchaser.

The concentration of controlled crude in the hands of a few major companies created an entry barrier to other companies. Evidence shows that several prospective purchasers recognized that they were excluded from purchasing in some fields because of the degree of control over crude existing in these areas. First purchase control, therefore, enhanced the type of discretionary power that accompanies the restriction of entry to an industry.

The discretionary power that the leading firms derived from pipeline ownership and the control of crude was mutually reinforcing. Pipeline ownership contributed to crude control. Crude control in some instances led to a reduction in pipeline competition and the concentration of pipeline ownership in those firms with crude control. The power that was derived from both these sources was used to establish a pricing mechanism by which the major shippers, under the leadership of Imperial Oil, determined the price of most Canadian crude oil.

#### (a) *The Pricing Mechanism*

Crude oil is not a homogeneous product. Crude types differ in both sulphur content and gravity. In general, the higher the gravity when measured in °API, the greater the proportions of high valued product such as gasoline that can be produced at a given refining cost. The higher the sulphur content, the greater the refinery costs or the lower is the value of product because it contains sulphur. Since these characteristics varied from one Canadian crude oil to another, the administered pricing system used in this sector had to establish both the level of crude prices and the relationship of the price of one type of crude to another.

Led by Imperial, the major shippers of crude through the Interprovincial Pipe Line system, devised a pricing system whereby one crude type was chosen as a "par"—"reference" or "base"—crude and the other crude types were priced in relation to the par crude. The price of the par crude was set or posted by the crude purchasers. One reference indicates that the par crude originally was the crude produced from Imperial's Leduc fields. Other references to the par crude mention only its specific gravity and sulphur content. Yet it is evident that Imperial effectively set the price of the par crude since Imperial's postings for the par crude were followed by the rest of the industry. Imperial "invariably [was] the first to announce crude price changes" (Volume IV, p. 6) and other purchasers who posted prices were quick to follow. In 1962, although Gulf, then with the second largest control position, challenged Imperial's price move, it was "forced to follow shortly thereafter". (Volume IV, p. 7)

Again, in 1972, Gulf questioned Imperial's decision to change wellhead prices but was forced to follow Imperial's lead.

The formula that related the price of other crude types to the par crude was devised, discussed, and agreed upon by the shippers on Interprovincial Pipe Line. Imperial took the lead in establishing the formula, though it entertained complaints and relied upon a form of consensus for its authority and decisions on this matter. The decision-making rule for adopting the formula was not specified in minute detail. Generally, shippers' decisions rested on a general understanding reached by a majority—weighted by their volume shipped. With Imperial's dominance, this left this firm, along with Gulf, in control. Nevertheless, the acquiescence of other firms was of some importance since the rule itself was subject to change and a public complaint by dissatisfied parties might have caused intervention by regulatory authorities.

Ostensibly the shippers focused only on price differentials during these discussions; however, with the existence of a par crude to which all other crudes related, setting price differentials served to establish the average price of crude oil in general. That discussions on price differentials amounted to discussions on price is evident from a comment made during one negotiation that *"those not wishing to discuss price or value could achieve the same result by indicating a gravity equivalent of the price"*. (Volume IV, p. 12)

The price setting formula that was adopted was used to manage the equalization of crude shipments on Interprovincial Pipe Line. Equalization is necessitated by the fact that for technical and economic reasons all types of crude tendered by crude purchasers to a pipeline at its origin cannot be shipped separately. Instead, they are sometimes batched or blended together and shipped in what are called 'blended streams'. Equalization is an accounting adjustment necessitated by the fact that a refiner, when he receives delivery of a blended stream at the termination of the pipeline, may be receiving crude of either a higher or lower quality than the crude originally delivered by him at the origin. The difference is due to the fact that the crude has been blended with that of others. Through the equalization procedure compensation is paid to those shippers who deliver a higher quality crude at the pipeline origin than the mixed blend received at the terminus. In turn those who have purchased a crude of lower quality than they receive are penalized in order to compensate the first group.

In Canada, the penalties and compensations were calculated by applying the pricing formula devised by Imperial and accepted by the other shippers. The penalties and compensations were calculated by using the price of the par crude and a gravity/sulphur pricing scale to set the price of other crude types. These prices were then used to calculate that owing to or owed by each shipper based on the difference in quality between the blend received and the crude delivered at the pipeline's origin. Although not all crude shipped in Interprovin-



cial Pipe Line was blended in this fashion, this pricing mechanism established the price of most of the light to medium crude oil produced in western Canada.

While it is evident from this description that the process of equalization is necessary, the particular scheme adopted in Canada is not the only one possible. Equalization can be achieved without the various parties in effect setting the average price of crude. For example, in contrast to the equalization scheme used in Canada, equalization on the Platte Pipe Line in the United States was accomplished by taking the average specific gravity differential of the posted crude prices of different companies and applying this number to the settlement of accounts. The only agreement reached in this method was on gravity and other differentials. Different companies could still post different prices for the same quality crude. This equalization scheme potentially allowed for price competition for it was stressed that this equalization system had “no bearing upon the well [head] price a shipper pays for his crude” and that “the gravity differential values” calculated for equalization purposes “in no way affect the price of the crude petroleum or are determinative of it”. (Volume IV, p. 12) The Canadian scheme had just the opposite effect.

One of the reasons that the pricing formula had such a wide impact on Canadian crude prices was that Interprovincial’s rules and regulations were employed to prevent or to make it difficult to ship a “special stream”—a stream of sufficient volume that it could be shipped separately from the main blended stream. If shipments of special streams or access to them are limited by pipeline regulations, then companies cannot ship separately their own crude or crude which they might have purchased at prices other than those of the blend formula used for the equalization process. When special streams are restricted, shippers must blend their crude with that of others and adopt the blend equalization formula.

Interprovincial Pipe Line discriminated against shippers, other than Imperial, who wanted to ship special streams in two ways. First, Interprovincial discriminated against other shippers by denying them equal access to crude storage tanks that were necessary for the shipment of special streams. Interprovincial directed firms seeking to ship a special stream to Imperial for use of Interprovincial tankage assigned to Imperial. This gave Imperial substantial control to determine which firms could ship a special stream. Second, Interprovincial discriminated against shippers, other than Imperial, in terms of the minimum volume requirements for the shipment of special streams. Interprovincial admitted to providing transportation for Imperial of a smaller volume special stream than the minimum required of others. Imperial controlled Interprovincial and since Interprovincial’s regulations on special streams restricted the possibility of price competition in the crude sector, it may be concluded that Imperial used its control at the pipeline level in such a way as to extend or to enforce the effect of the pricing mechanism that it had established.

(b) *Inter-Firm Communications*

The discretionary power derived by Imperial from pipeline ownership and first purchase control allowed it to take the lead in establishing a pricing formula. While Imperial was the dominant firm in the price setting process, other firms were active participants. This is evident from inter-firm communications. These communications served two purposes. First, they indicated the considerations that other firms wished Imperial to take into account. Second, they permitted Imperial to explain its decisions to others. These communications, therefore, generated the approval Imperial needed from other firms in order to perpetuate its leadership role.

Communications took a number of different forms. At times, it would appear, members of the industry thrashed out their problems in joint session. For example, the pipeline shippers' meetings provided a forum for discussion of the pricing system. As early as 1959, there is evidence that the shippers on Interprovincial complained about the price of mixed blend crude oil. Imperial responded by saying that it would make a presentation to other shippers on the method of pricing the mixed blend stream. In the 1960s, after the National Oil Policy was established, "many complaints" were made to Imperial about the "prices for Alberta crudes" by Ontario refiners who were forced to use Canadian crude. (Volume IV, p. 17) Imperial again undertook a study of Alberta crude prices as a result of these complaints.

At other times, price lists or bulletins were exchanged to co-ordinate price moves. For instance, in 1968, when a surplus of British Columbian crude developed, Imperial, Gulf, and Shell discussed the problem and decided on a 10 cent per barrel price reduction. Gulf originally announced a 5 cent per barrel reduction in the price of British Columbian light crude in a price bulletin but then "verbally" advised Shell that the reduction would be 10 cents. (Volume IV, p. 22) Shell then introduced the same price reduction.

Occasionally the industry co-ordinated its approach and made application to Imperial through Gulf. In 1972, prior to Imperial's posting a wellhead increase in response to a reduction in Interprovincial's pipeline tariff, Gulf was informed of Imperial's intended increase and discussed the matter with Imperial. Gulf also held discussions with "local representatives of the integrated companies" about whether the group should oppose Imperial's actions. (Volume IV, p. 22)

On other occasions direct contacts with Imperial were made or contemplated. British Petroleum noted that some price discussions were discreetly held among the industry outside of Imperial. In 1967, British Petroleum felt that the 5 cent wax penalty on Pembina crude should be removed or the price of Rainbow/Zama decreased. Recommendations were made to resolve this problem by discussing the prices of these crudes with "non-producers/potential



users of Rainbow/Zama” and “approaching Imperial” on the matter. (Volume IV, pp. 17-18) Eventually, Imperial removed the 5 cent penalty.

Liaison between firms was also accomplished through Interprovincial Pipe Line. On one occasion when a company broke from the generally accepted pricing formula and posted a different price, it was informed by Interprovincial that it was playing a “dangerous game”. (Volume IV, p. 114) Interprovincial was also used as an intermediary between Imperial and those firms wanting special streams.

The pricing formula did not directly cover heavier crudes and condensate. Yet it was recognized that the expansion of production or the reduction in prices for these refinery feedstocks could cause the disintegration of the price structure established by the main pricing formula. Competition from heavy crudes and condensate was restrained by devices that complemented the central pricing formula. Firms other than Imperial were responsible for implementation of these devices in areas where Imperial was not dominant.

In the early 1970s the production of condensate had so increased that the price some firms were willing to pay began to fall. Condensate is a by-product of natural gas production. This substitute for crude oil can be run in refineries either on a segregated basis, or mixed with crude oil in a blend. Because of these substitution possibilities, the price of condensate can affect the price of crude oil.

Several firms noted that the resultant lower prices being offered for some condensate could affect the pricing structure for all condensate. When confronted with this situation, they achieved a consensus on the price of condensate by using the equalization process to suppress an outbreak of price competition. A decision was made to batch condensate into the mixed blend in the Interprovincial Pipe Line system. The nature of the equalization allowed shippers to then agree on price. There was no technical necessity for this action. Indeed, different behaviour was observed when the supply of condensate did not offer a direct competitive threat to the basic price structure.

Heavy crude production was also perceived to offer a threat to the central pricing structure. Neither the Saskatchewan nor the Alberta governments prorated heavy crude oil and the price of this hydrocarbon was therefore susceptible to market forces. The substitution possibilities meant that changes in the price of heavy crude could threaten the price structure that had been established under Imperial’s leadership for medium and light crude production.

In the late 1960s, a surplus of heavy crude developed that threatened to cause the price of this hydrocarbon to fall. Discussions took place at shippers’ meetings with Interprovincial as to how production reductions might be allocated across different fields in Saskatchewan and Alberta. These discussions culminated in meetings in Calgary where a decision was taken to co-ordinate simultaneous production restraints in heavy crude production in Saskatchewan and Alberta.



### (c) *Pipelines*

The pipeline sector played a major role in facilitating the monopolistic situation that allowed the industry, led by Imperial, to set prices and to restrict competition. The monopoly power that leading firms possessed was enhanced by pipeline ownership and used in several ways to lessen competition.

Pipeline operations required regular communications between shippers and refiners to convey information from one to another. These communications contributed to the process by which understandings that were the basis for joint actions were reached. Contacts in the pipeline sector were also used to facilitate production restrictions when no formal authority had been received from provincial authorities to do so. Thus activities in the pipeline sector indirectly helped to reduce price competition among producers.

Ownership of pipelines by the majors also allowed them to affect competition directly. On occasion, pipeline companies employed discriminatory transportation charges so as to limit price competition between crudes produced in different areas. The pipeline companies also created entry barriers in the refining sector, by discriminating against non-owner shippers. Discrimination against non-owners was accomplished in two ways. First, transportation rates were often set to produce excessive profits. This gave owners of pipelines a competitive advantage because some of their transportation costs were reduced by the value of their dividends.

Second, control over pipelines allowed owners to limit access to preferred crude types. The price system that was adopted under Imperial's leadership over-priced some crudes and under-priced others. Under-priced crudes offered the refiner a cost advantage and were naturally preferred. Consequently, if a company owned or controlled a pipeline, it enhanced its control not only in the crude sector but also in the refining sector.

### (d) *Conclusion*

The monopolistic situation that existed in the production sector by the control of the leading firms was exploited in several different ways. First, the industry — led by Imperial — used its control to keep the average price of Alberta crude above world market levels in areas such as Ontario where the two prices should have been comparable if competitive market forces had been allowed to operate. The effect of the pricing mechanism in the production sector was also felt downstream, as prices for refined products were enhanced in Ontario.

Second, the crude price structure that was established by consensus, under Imperial's leadership, was distorted. The gravity/sulphur formula used by the industry to establish crude oil prices did not properly reflect the relative value of the different types of crude at the refinery. In particular, the price of lighter crudes relative to medium and heavy crudes was kept too high. Because

of control at the pipeline level, the industry leader was able to dump over-priced crude into the mixed blend stream and at the same time control access to special streams made up of the under-priced crude oil.

This practice restrained competition in two ways. Some firms were left at a disadvantage. By the end of the period under review, most of the small independent refiners — North Star, Cities Service, Canadian Oil Companies Ltd.—had been acquired by larger firms and thus removed as competitive forces. In other cases, where firms were not eliminated, their ability to compete was constrained. As their competitive position depended upon the majors' control of access to the more desirable crude oil types, these companies were not a competitive threat. Both large and small firms were constrained by this process. The leading majors sustained their dominant position and the rest of the industry consented to the various arrangements that established the price of crude oil. This, in turn, reinforced the extent of interdependence that existed downstream in refining where concentration was high.

Control developed in this sector, as in the international sector, because the industry was dominated by a handful of subsidiaries of multinational petroleum companies. However, unlike the international sector, a large number of other producers functioned in the Canadian market and at least some were actively involved in the process by which crude prices were determined — albeit in a secondary, supporting role. Despite the participation of this latter group, the power that the dominant firms possessed was critical, allowing them to shape the industry's behaviour to their own advantage. The manner in which this power was exploited to constrain the competitiveness of other refiners provides an example of the way in which such market power can be used to lessen competition.

In addition, the accommodations reached in this sector tended to affect the performance of other sectors. The competitiveness of domestic refineries depended upon access to competitively priced crude. The evidence shows that this access was controlled by a handful of majors, and explains why the majors tended to act as a unit against outsiders in their downstream operations in the refining and marketing sectors.

#### 4. *Petroleum Refining*

Because the refining sector is positioned between the production and marketing sectors, the market structure and behaviour of firms at this level affected both upstream and downstream markets. Upstream, in production, the structure of the refining sector contributed to the concentration of crude control in the hands of a small number of companies. Downstream, in marketing, the interdependence that developed between firms at the refinery level enhanced the tendency of these same firms to adopt mutually reinforcing disciplinary policies that restricted competition.

In the production sector, the interests of a substantial number of firms were welded together to establish the administered pricing system that maintained the level of Canadian crude prices in the face of falling world prices. In contrast, the majors had less need to take explicit action at the refinery level to co-ordinate behaviour, as the refining sector has been more highly concentrated than the production sector. As a consequence, individual refiners developed a degree of interdependence that allowed them to adopt policies that were in the interests of the group as a whole but against the interests of outsiders — especially outsiders in the marketing sector who threatened to engage in price competition.

### (a) *Industry Structure*

In the refining sector, the market in Canada can be divided into five regions — the Maritimes, Quebec, Ontario, the Prairies, and British Columbia.

There are two groups of major refiners. The first group consisted of Imperial Oil Limited, Gulf Oil Canada Limited, Texaco Canada Limited, and Shell Canada Limited, who all had national representation at the marketing level. The second group included such firms as BP Canada Limited, Petrofina Canada Ltd., Irving Oil Company, Limited, Sun Oil Company Ltd., and Standard Oil Co. of British Columbia Ltd., who limited their representation to specific regions and are, therefore, referred to as regional majors.

Both the national and regional majors operated in the gasoline marketing sector with similar high cost, high priced distribution systems. They avoided price competition and harmonized the policies they employed to discipline the price competitive independent marketing sector. For this reason, the national and regional majors may be considered to have comprised a discernible unit.

Measures of concentration that include these firms as a group reflect the extent to which this group dominated the refining sector. The national majors controlled upwards of 90 percent of refining capacity in the most concentrated regions and as low as some 60 percent in others. However, when the regional majors are included in the total, then the market share of the majors as a whole at the refinery level was approximately 90 percent over the 1958-1973 period.

The structure of the refining sector across the country has varied from region to region. The Maritimes has been dominated throughout the postwar period by three of the national majors — Imperial, Texaco, and Gulf — and one large regional major — Irving. Prior to 1960, Imperial controlled 99 percent of refining capacity. In 1960 the Irving refinery was brought on stream. In 1965 Texaco constructed a refinery in Nova Scotia. In 1971 Gulf completed construction of its own refinery in this province. Except for a brief period in the early 1970s, these four firms as a group consistently held more than 90 percent of refining capacity.



The Quebec market until 1970 was completely dominated by the four national majors and two regionals — Petrofina and BP. In 1957 the four national majors controlled about 92 percent of refinery capacity with Petrofina accounting for the remainder. In 1960 the four national majors controlled about 82 percent of capacity with Petrofina and BP accounting for the remainder. In 1970 these six majors still controlled 100 percent of capacity, though the national majors' share had fallen to about 71 percent. In late 1971 Golden Eagle brought a large refinery onstream in Quebec City. Golden Eagle did not, at the time, conform as much to the majors' marketing policies as did Petrofina and BP. With Golden Eagle's entry, the four national majors' market share decreased to 58 percent, but together with Petrofina and BP, the majors as a whole still controlled about 85 percent of capacity in 1976.

The postwar history of the Ontario refining market can be divided into two periods. During the first period, the percentage of the refining industry owned by the national majors increased as smaller regional refiners were acquired or closed down. In 1956 Texaco acquired Regent Refining; in 1963 Shell acquired Canadian Oil; and in 1964 a small refinery owned by Husky and located in Fort William was closed. As a result, the four national majors controlled some 83 percent of capacity by 1964. Over the next decade, the share of the national majors decreased from 84 to 70 percent. Two regional majors — BP and Sun Oil — expanded, though neither was an aggressive force in the market. However, together the six majors controlled 100 percent of refining capacity from 1964 onwards.

In the Prairie region, the national majors' control of refining capacity increased between 1956 and 1973. In 1956 three of these majors controlled 63 percent of refining capacity in the Prairies. Around 1960, the fourth major, Shell, entered the refining sector through the acquisition of North Star Oil Limited. As a result, by 1960 the national brand majors controlled 75 percent of capacity. The subsequent period saw the national majors' share of refining capacity increase through further acquisitions. In December 1962 Gulf acquired Royalite, and in March 1963 Shell acquired Canadian Oil. By 1976 the four national majors controlled 89 percent of total capacity. The two other refiners in the Prairies were Husky Oil and Consumers' Co-operative. By the end of the period, however, Husky produced mainly asphalt and obtained most of its other product requirements from Gulf.

In the Pacific region, the majors' share of the market has been high throughout the last two decades. Imperial, Shell, and a regional major — Standard Oil of British Columbia — controlled 90 percent of capacity in 1956. In 1958 Gulf entered the market. Despite subsequent entry by Pacific Petroleum and Union Oil, expansion by the majors, and the acquisition of Royalite by Gulf, the total share of the three national brands and the regional

major remained relatively unchanged. By 1976 these four majors controlled 87 percent of refining capacity in the Pacific Region.

(b) *Inter-Firm Linkages*

In addition to the high level of concentration at the refining level, a second structural feature influenced the degree of interdependence that developed at the refining level. The extent to which product was exchanged among firms and the degree to which the manufacturing process was co-ordinated among companies directly linked the interests of these firms together. When firms engage in joint manufacturing, as in the refining sector of the petroleum industry, then statistics on concentration are misleading. They overestimate the extent to which rival entities operate in the market place.

Agreements on product exchanges, processing, and other refinery arrangements can be grouped into those that were of short duration and those that were longer term. Short term arrangements often arose because of unforeseen supply difficulties. One such arrangement provides an example of the degree to which short term supply arrangements could develop a feeling of interdependence at this level. For instance, Shell lent crude to Imperial when the latter was experiencing supply difficulties even though it was "unprofitable" for Shell to do so. Shell did so "in the interest of good relations with our competitors". (Volume V, p. 24)

Long term inter-refinery supply agreements, because of their size and duration, were more important than the short term localized arrangements in serving to link the major refiners together. A system of agreements evolved that was characterized by a senior Imperial vice-president as an '*industry refinery approach*' and that, he noted, involved such a degree of '*industry supply interchange*' as to make it extremely difficult to argue that competition existed. (Volume V, p. 48)

The pattern of linkages was such that a set of bilateral arrangements tied all of the national majors together into one all-inclusive network. In addition, the linkages between each regional major and one or another of the national majors tied the regional majors to the national majors.

The refinery supply agreements were so complex that a degree of co-ordination was required that served to mesh the interests of the separate parties. One element of this complexity was the development of two- and three-way exchanges—both by company and by region. For example, exchanges of products among the majors were contemplated that would cross national boundaries into the United States and involve five different companies. Imperial planned one three company swap that would have linked the Prairies, Ontario, and Quebec. It arranged another exchange that linked itself, Shell and Irving in Quebec and in the Maritimes. Another aspect of the complexity of these exchanges involved the agreed upon time frame. Time horizons of a



decade and over were sometimes adopted in planning for capacity expansion and in assigning responsibility to one of the parties for investment.

The complexity of these refinery arrangements required exchanges of information and discussion of intended expansion plans among the major firms. These exchanges of information could be quite substantial. For example, a Gulf study noted that in discussions with another company regarding a processing agreement, it would be necessary “to determine the joint demands by area and the plants that can most economically supply these demands”. (Volume V, p. 48) Joint studies that involved such subjects as demand for products, supply capabilities, and distribution networks integrated the interests of the participating parties. This result was not an incidental by-product of refinery agreements. Evidence shows that the parties understood the constraining effects that this had on competition. For example, Shell, in contemplating an exchange agreement with a new entrant to the refining sector, noted that “*this would reduce his flexibility in the Montreal area and certainly provide us with a knowledge of his intentions and a certain degree of control*”. (Volume V, p. 58)

### (c) *The Market Control of the Major Refiners*

The evidence from the refining sector not only demonstrates that both the structure and the linkages drew the majors together into a well-defined unit that had the type of control normally associated with a monopolistic situation, but it also shows how the refiners used the discretionary power that is associated with market control. On some occasions, this power was exercised by one company alone; at other times, it was exercised only after communications with others and, therefore, was co-ordinated to a degree. In both cases, the exercise of discretionary power enhanced the monopolistic position of the majors.

While the structure of the industry and the extensive refinery agreements linked firms together at the refinery level, not all firms can be considered to have wielded equal power. In particular, Imperial possessed more influence than others. Throughout the review period, Imperial was the only company with refining capacity in all Canadian regions. This gave Imperial more flexibility as well as more control over the refinery agreements that evolved. Because of this, Imperial's role takes on special importance.

The evidence shows that Imperial's objective was to maintain “*reasonable control of spare industry capacity*”. (Volume V, p. 40) Refinery exchanges or other similar agreements would be considered for firms that might otherwise build a refinery, because this would discourage the construction of additional refinery capacity. Imperial recognized this would “increase our degree of control of spare capacity”. (Volume V, p. 40) This strategy entrenched the control exercised by the dominant firm over the disposition of refined products and tended to prevent the erosion of prices in product markets.



Imperial's objective extended beyond just preventing the development of excess or wasteful refinery capacity. The product arrangements acted to maintain upward pressure on prices in the marketing sector and to reduce the number of marketers competing on the basis of price. The control over spare capacity left Imperial free to discriminate among customers on the basis of their competitiveness in downstream markets, to control the volume growth of other firms through the terms of refinery agreements, and even to refuse to supply those firms that were price competitive in downstream markets. The effect of the control developed at the refinery level was not just to rationalize refinery capacity but to restrict entry and to strengthen interdependence in the refining sector. Ultimately, Imperial's policies also reduced competition at the wholesale and the retail level in the marketing sector.

While Imperial's policies were important in that it was the largest Canadian refiner, it did not have to act alone. Imperial's policies were bolstered by the actions of other majors who shared similar objectives. For instance, Shell noted that it was in its interest to develop "control" via a refinery supply agreement over partners who offered potential competition. (Volume V, p. 58) Other majors — Gulf and Texaco — saw the threat in marketing to be the independent marketers and adopted various selective refinery supply policies to reduce the independents' ability to compete. Thus the group of national majors perceived a common threat and adopted analogous, though not identical, refinery supply policies to deal with it. In this sense, the majors acted as a unit.

Certainly these firms felt that they belonged to a type of club. Gulf viewed refining investment as an "ante" and noted that once the "ante" was made, the participant would be allowed to "play the game". (Volume V, p. 53) Shell viewed refining and ancillary investments as an "entrance fee". (Volume V, p. 54) Those firms that had not paid an "*entrance fee*" — that is, those companies that had not made a sufficient investment in facilities — would either not be supplied or would be penalized in terms of the supply agreement.

The extent to which these firms came to rely upon one another can be found in their appreciation of a shared obligation to avoid price competition in the market place. For instance, while Gulf noted that sales to resellers could affect downstream price competition, "Special Sales to major refiner-marketers have little effect". (Volume V, p. 44) In turn this meant a marketing department, such as Gulf's, had no objection to "*the principle of selling a part of our excess capacity to any of the three major oil companies competing against us, providing it is within normal growth rates*". (Volume V, p. 59)

#### (d) *Supply Constraints*

The manner in which the majors used their discretionary power at the refining level to constrain competition downstream in marketing differed somewhat, depending upon whether they were dealing with one another, with

potential entrants to the refining sector, or with marketers who had little potential for entry into the refining sector. In all cases, some variant of a selective supply policy evolved and thus placed constraints on the ability or incentive of one party to compete downstream. In their dealings one with another, the majors developed a number of restrictions and conditions, either explicit or implicit, that governed their supply agreements.

One restriction related to the amount of competition that would be tolerated, as competition downstream could lead to cancellation of a supply agreement or at least a revision in its terms. For instance, Imperial supplied Shell in the Maritimes during the late 1960s because Shell did not possess refining capacity there. When Shell's market share growth exceeded a level acceptable to Imperial, the latter indicated this to Shell. New terms were added to the supply agreement that would have penalized Shell if it tried to continue to expand this market share.

Other restrictions such as market sharing provisions, territorial exclusivity, or "normal market growth" clauses also reduced the ability of any party without a refinery in a region to grow at the expense of the others. One form of market sharing was accomplished by limiting the availability of refined products in the region to a firm's existing requirements, allowing in future only sufficient supplies to allow "normal market growth". This reduced the ability of the recipient of product to expand his market share. "Normal market growth" clauses were also utilized in product supply arrangements between some national majors and regional refiners in order to restrict the ability of the latter to supply the price-competitive independent marketing sector. Another form of market sharing agreement involved territorial exclusivity clauses. Product interchange either explicitly or implicitly depended upon the observance of traditional markets. For instance, the Husky Oil-Gulf Oil product supply agreements organized in the late 1960s included reciprocal territorial exclusivity clauses. In this exchange it was understood each firm would only serve its "*TRADITIONAL MARKET AREAS*". (Volume V, pp. 61-5)

Many of the most important exchange agreements among the majors were reciprocal. Reciprocity tied the volumes obtained by one company from a second in one region to what the second could or did take from the former in another area. Depending on the nature of the agreement, reciprocity could work in different ways to restrain competition. If one company thought the other was taking too much, the former might reduce its own receipts and insist that the other do the same. The evidence shows that Gulf interpreted its reciprocal arrangement with Husky as allowing it to do this. Alternatively, if one partner felt that its product was being used by the other to expand its market share, the former might retaliate by lifting more himself in the market where the aggressor's refinery was located. Thus, reciprocity facilitated the maintenance of market discipline.



The majors not only organized the terms of their supply arrangements one with another so as to harmonize their own interests, but they also developed an effective policy to restrain entry into the refining sector. The reaction of major refiners to possible entrants into the refining sector differed depending upon the potential of the latter to enter and to compete with existing refiners. In some cases firms that were judged to have a high probability of entry were offered product supplies in order to delay their entry. Evidence shows that Shell perceived that in this way a new firm could be partially "controlled". (Volume V, p. 58) Alternatively, firms with little chance of entering the refining sector were either denied supplies or not offered them on the same terms as existing refiners. Particular care was taken by most of the majors to keep supplies away from price-competitive marketers. Throughout the period examined here, the branded price structure in the marketing sector was continually threatened by the growth of more efficient independent marketers. The independent marketers threatened the majors because they were able to operate on lower retail and wholesale margins in comparison with the majors and their high cost, branded system. Since the independents' advantage did not stem from their having access to 'dumped' product at less than remunerative wholesale prices, there was no justification for trying to limit this group's access to a supply of product. The majors did, however, attempt to restrict the growth of this sector in a number of ways.

The majors tended to discriminate against firms that were known to be price competitors. Lists were compiled of "responsible," "desirable," or "stable" independent marketers whom the majors would be willing to supply. "Responsible" was synonymous with the pursuit of a price policy that was either at or quite near the majors' price levels, for the majors did not lose their market share when independents priced only a few cents below the branded level. The majors' share did fall when independents priced in relation to their own costs, which was often 10 cents or more below the majors' price. "*Irresponsible*" marketers were either not supplied or were supplied at a price that would keep them "honest" in the eyes of the majors. (Volume V, pp. 89 & 99) In some cases, a supplier required or received an expression of intent from an independent marketer seeking supplies that it would not act aggressively or engage in price competition.

Particular attention was paid by major refiners to restricting the product flow to independent marketers through intermediaries. One way in which this was done was by the imposition of restrictions on the disposition of supplies by recipients under a product supply agreement. The restriction could be explicit in that the amount supplied would be only for the recipients' "own use," or it could be implicit in that the recipient promised not to disturb the market with third-party sales.



Squeeze tactics were also employed against independent marketers. Imperial, Shell, and Gulf all sought to squeeze the profit margins of the independents in the early 1970s through the twofold approach of increasing wholesale prices while simultaneously decreasing their own retail prices. The discretionary or monopoly power possessed by the major refiners allowed the squeeze to be undertaken from the refinery or wholesale side.

(e) *Conclusion*

Actions taken at the refinery level served to restrain competition both at the refinery level and downstream in marketing. Many of these policies were implemented unilaterally. Each refiner was able to impose certain restrictions on exchange agreements because of the discretionary power conferred by the ownership of refinery capacity. While these restrictions reinforced the objectives that were common to the majors as a group, each company essentially adopted its own variant of the restrictive supply policies that best suited the particular situation in which it found itself. Refiners were able to adopt similar policies because of the high level of concentration and the extent of inter-firm linkages brought on by product exchanges at the refinery level. As a result, the degree of interdependence among the majors in this sector was extremely high.

As in the marketing sector, there is evidence to show that other majors sometimes focused on Imperial Oil. During the 1968 wholesale squeeze, Texaco carefully patterned its wholesale pricing policy after Imperial's, recognizing that this would put pressure on the independents. In 1972, Shell also implemented a policy similar to Imperial's.

Policy harmonization was sometimes facilitated by communications. Imperial in one case held discussions with a wholesaler on the need to ensure that an independent to whom the latter was selling in Winnipeg limited the discounts it offered on retail gasoline sales. Imperial and Gulf both held discussions with a large Vancouver independent to inform the latter of the level of discount it would be allowed at the retail level.

In summary, the actions of the major refiners served to restrain competition downstream in marketing. Three different types of policies were used to this end. First, inter-refinery agreements among the major firms as to the supply of crude were accompanied by various restrictions or conditions that tended to reduce the incentives each would otherwise have had for independent action. Second, the refiners adapted to entrants in the refining sector by reconstituting their arrangements once entry had occurred so as to tie the new firms to the existing refiners and to reduce the ability or the incentive of the entrant to act independently and to compete downstream in marketing. Finally, the discretionary power that refinery ownership conferred was used to select the type of firm that would be supplied, and the terms under which it would receive refined products.

With these methods, refiners discriminated against price competitive marketers and, in particular, against independent distributors. While many of these actions were taken unilaterally and stemmed from the discretionary power associated with refinery ownership, policies were sometimes co-ordinated. The disciplinary actions of Imperial were followed by Texaco and Shell. Imperial also communicated directly with others about its policy on wholesale prices and/or pricing levels that would be tolerated from the independents. On these grounds, the refiners can be said to have consciously harmonized their refinery policies in order to reduce downstream competition in marketing.

### 5. *The Marketing of Gasoline*

The marketing system across Canada was dominated by the same firms that controlled the refining sector. The largest four majors — Imperial Oil Limited, Shell Canada Limited, Gulf Oil Canada Limited, and Texaco Canada Limited — had national representation. Other large integrated majors — such as BP Canada Limited, Sun Oil Company Ltd., Petrofina Canada Ltd., Irving Oil Company, Limited, Union Oil Co. of Canada Ltd. and Standard Oil Company of British Columbia Ltd. were represented in only one or two Canadian regions. Because of the links that drew all of these companies together in the refining and production sectors, they developed a set of common policies and interests.

#### (a) *Market Structure*

The Canadian gasoline market can be divided into five geographic submarkets. The structure of each market differed in two major dimensions — the number of national and regional majors operating in it and their relative shares of the market. Because of the similarities in the marketing strategies of the majors and their tendency to refrain from competing on prices, the number of majors operating in a market had little influence on the extent of price competition. By contrast, the independents had a greater tendency to engage in price competition. Therefore it is the size of this latter group that was the most important determinant of competition in the markets across Canada.

In the area served by imported crude oil, one region — the Maritimes — was characterized by a stable, relatively concentrated market structure. In the 1954-71 period, Imperial Oil, Canadian Oil, Texaco, Gulf and Irving accounted for 89 percent of the volume of sales in the retail market and continued to do so in 1971—with Shell having acquired Canadian Oil. Until 1971 private brand or independent marketers had little representation in the Maritimes.

The Quebec market, like the Atlantic market, has been served by offshore crude oil and imports of refined products. Two regional majors were established during the early part of the review period. In 1953 the four national majors — Imperial, Shell, Texaco, and Gulf — accounted for 83 percent of the retail market. BP and Petrofina entered the market during the 1950's and increased their market share to about 17 percent by 1961. But these firms copied the strategy of the national brand majors in adopting a high cost distribution system and they had little impact upon price competition. By 1964 the four national majors and the two regionals accounted for 80 percent, and by 1971 they still held about 79 percent of the total market.

Unlike the Atlantic region, in Quebec a fringe group of independents emerged who threatened the majors with price competition. In the Atlantic region, private brand price discounters remained relatively unimportant, accounting for only 4 percent of the market by 1971. In Quebec, the discount segment of the market grew from about 4.4 percent in 1960 to 13.6 percent by 1970.

Ontario was generally served by domestic crude oil and refined products throughout the review period. Like Quebec, Ontario was dominated by a combination of the four national and several regional majors. In Ontario the four national majors accounted for 63 percent of the gasoline market and the eight largest firms for 85 percent in 1954. In 1971 four national majors held 58 percent of the market, while the eight largest firms' share remained at 85 percent. Mergers changed the identity of the second largest four firms but not their tendency to follow the marketing strategy of the largest firms. These firms tended not to use prices in competition with one another.

Again like Quebec, Ontario witnessed the development of a discount sector during the 1960s. Starting with about 7 percent of the market in 1960, the Ontario discount brands accounted for 14 percent by 1970.

The structure of the Prairie market differed somewhat from that of the Ontario market. In contrast to Ontario, the national majors enlarged their market share in the Prairies as a result of the acquisition programme followed by Gulf and Shell. Imperial, Gulf, Shell, and Texaco sold 74 percent of all gasoline distributed in Alberta through retail outlets in 1957 but this figure had increased to 86 percent by 1965. In the entire Prairie market, the share of the four national brands was about 86 percent in 1967. Their share declined to 82 percent in 1969 and 78 percent in 1971.

As in the Ontario market, independents in the Prairies also gained some market share, particularly towards the end of the 1960s. Between 1967 and 1971, the share of private brands expanded from some 6 percent to about 11 percent. Because these firms did not have the same access to offshore products as did the independents in eastern Canada, their dependence upon domestic refiners made it easier for the majors to control this sector. Partially as



a result of this, independents on the Prairies exerted less of an influence on competition.

The Pacific region was also dominated by the four national majors, although like the Atlantic region it had one relatively large regional major — Standard Oil of British Columbia, a subsidiary of Standard Oil of California. These five firms accounted for over 80 percent of total sales volume throughout the period. Their share was some 93 percent in 1964 and in 1971 was still 84 percent. The minor decline was the result of the entry of several smaller integrated refiner/marketers — Husky, Pacific, and Union — and of the growth of independents from 7 percent in 1963 to 11 percent in 1971.

### (b) *Marketing Strategies*

The major gasoline marketers closely aligned their marketing strategies and tended to avoid price competition. Instead, rivalry among these large vertically integrated firms focused on non-price competition. One significant non-price factor that was stressed was the building of service station outlets. By the end of the 1950s, with the four national brand majors and the regionals adopting similar marketing strategies, the distribution network they had developed resulted in low volumes per outlet and high investment costs per gallon sold. In addition, the majors used credit cards and engaged in extensive promotional activity to attract customers, both of which contributed to the high wholesale/retail costs that characterized the majors' networks.

The majors' branded gasoline distribution system was inefficient because the high margins required were not sustainable in the face of unhindered competition from marketers with lower costs. That the majors were able to perpetuate their high cost marketing system attests to the strength of the monopolistic conditions that developed in the industry. Their reluctance to engage in price competition can be attributed to the effectiveness of the arrangements at other levels of the industry that harmonized the majors' policies.

The survival of the majors' branded marketing system was the result of practices to restrain competition from new entrants. The high cost marketing system and the high prices that accompanied this system attracted new entrants. The majors used their discretionary power to entrench their monopolistic position by employing disciplinary pricing policies against certain marketers whose lower cost distribution system threatened the majors' branded pricing structure.

### (c) *Disciplinary Strategies in the Late 1950s and Early 1960s*

Entry in the late 1950s came from two separate groups of firms. First, integrated companies like BP and Petrofina entered several regional markets. These regional majors aligned their marketing strategies with those of the pre-existing majors by emphasizing non-price forms of competition and offering

the same package of products and services. They were accepted by the other majors and their entry did little to stimulate price competition.

Independent non-integrated marketers also entered the market at this time. These independents priced their gasoline below the prevailing price structure for the majors' branded gasoline. Although the independents were at times able to import gasoline or acquire it from the integrated companies at slightly lower cost than the majors supplied products to their dealers, this cost advantage was not the primary reason for the independents' ability to price below the majors' branded prices. Rather, the independents' lower prices derived from their different approach to the marketing of gasoline. Whereas the majors expanded their representation in the market by building more stations and thereby diluting the volume of sales available to them on a station-by-station basis, the independents, with fewer outlets, avoided the type of advertising and promotional activity adopted by the majors and offered lower prices to sell larger volumes and thereby incurred lower investment costs per gallon sold. For example, based on 1962 figures, Shell concluded that a large "national unbranded" marketer had investment charges of 3.0 cents, while Shell's amounted to 4.6 cents per gallon for its outlets; other marketing expenses were estimated to be 7.0 cents for the independent and 10.9 cents per gallon for Shell. (Volume VI, p. 46) Studies in the late sixties and early seventies undertaken by Imperial placed the cost advantage of the independents at between 4 and 10 cents per gallon. (Volume VI, p. 58)

Although the majors recognized that the competitive advantage of successful independents was rooted in the inefficiencies that existed in their own branded distribution network, the majors did not respond to competition from the independent sector with policies that were intended to improve the efficiency of their own marketing system. Instead they implemented several disciplinary strategies aimed at constraining or eliminating the price competition coming from the independent sector.

The majors, led by Imperial, resorted to spot pricing and engaged the independents in price wars in order to reduce competition. The majors' objectives were to reduce the independents' rate of entry, prevent their expansion, and restrict price competition by forcing the independents to price either at par with the majors or at narrow differentials from their branded prices. These differentials were less than those that would have been justified on the basis of the cost differentials that existed between the majors and the independents.

During the 1950s, the majors were able to maintain the high whole-sale-retail margins required to support their high cost branded distribution network. However, in 1958, the international market became more competitive and, with greater access to supply, new independents were able to enter the market. As the independents entered various urban markets across Canada late in the decade, Imperial — the industry leader — developed a strategy to contain

these firms. Imperial's leadership role, its intent and success in countering the independents, is revealed in the material relating to the company's strategy in the Vancouver, Winnipeg and various Ontario markets between 1959 and 1963.

Imperial's policy in the Vancouver market, as developed in 1957, stated that "the only reason for going into the area on a price-cut programme will be for the express purpose of making an attempt to return gasoline marketing to a more normal basis". (Volume VI, p. 259) Returning gasoline marketing to a normal basis meant having "Cut price outlets in the subject area revert to regular retail prices". (Volume VI, p. 259) Imperial's Vancouver office developed a strategy that reduced Imperial's prices on a spot basis to meet the independents' prices. If the independent reduced his price, Imperial would follow him down. If the independent moved up, Imperial would do the same thing. The strategy emphasized the need to be prepared to make rapid downward adjustments in posted prices and to add rings of reduced price outlets around the core locations depending upon how competition developed. The strategy also emphasized the importance of staying with the plan for as long as the competition made it necessary.

At the same time, Imperial also participated in discussions between independents and other major oil companies in Vancouver about a 2 cent price differential that would be allowed the independent sector. Imperial indicated that it would not react against an independent selling within 2 cents of branded prices, but that it would not "live" with a 3 cent differential. (Volume VI, p. 262) In evaluating its program in January 1961, Imperial concluded that it had made "favorable progress in containing Private Brand potential". (Volume VI, p. 261)

In Winnipeg, Imperial employed a strategy similar to that used against the independents in Vancouver. In 1960, Imperial identified the major independent marketers in Winnipeg and determined that it would only "live" with price differentials of 1 or 2 cents per gallon below its own branded prices. If a competitive dealer reduced his price below the specified differential, Imperial's strategy was to meet his price and any further price reductions "on the nose". In outlining this strategy, an Imperial document stated:

"The competition could accept our differentials or they would get no differential whatsoever. Faced with this policy and knowing that we could move our dealers down overnight en masse . . . we feel the competition would make every possible effort to keep the market clean. There would no longer be any advantage to price cutting." (Volume VI, pp. 248-9)

With this strategy Imperial hoped to reduce sales at unbranded outlets; reduce profitability for the independents; discourage the entry of unbranded marketers; eliminate poorly financed price cutters; establish a realistic retail price on gasoline; and improve profitability for Imperial Oil.

Imperial was successful in establishing desired price differentials with many of the independents in Winnipeg during 1960. A document from August



of that year commented that it had been necessary in some cases for Imperial to raise and lower prices “in order to establish in the competitors’ minds that we intend to meet or stay within a certain number of cents of any price they post”. (Volume VI, p. 250) During this period in Manitoba, Imperial was involved in direct and indirect communications with their own dealers, the independents, suppliers to the independents, and the other majors. A number of these communications related to the co-ordination of pricing policies between the majors, while others were directed towards the independents and the pricing policies that Imperial insisted be followed.

In Ontario and Quebec Imperial used the same basic strategy employed against the independents in Vancouver and Winnipeg. The company generally dropped its branded prices to within 2 cents of the independents’ price and prevented them from widening their discount differential with branded prices. Imperial also encouraged upward price movements by matching increases initiated by the independents. Imperial’s campaign against the independents was prolonged and costly. Their combined wholesale-retail margin in Toronto ranged between 10.8¢ and 9.6¢ per gallon from 1960 to 1963. Shell estimated that in 1962 a combined margin of 15.5¢ was required to sustain a major brand operation. Imperial’s realized rate of return on marketing in Ontario was negative in 1962, 1963, and 1964. (Volume VI, p. 71)

With the increased activity of independents in the late 1950s, the other national majors also engaged in various price wars to restrict the independents. There was a pattern to these price wars. In areas where the independents were making inroads, the national majors, on their own initiative or following the lead of a regional major, dropped their branded prices to match the independents. Imperial generally led the subsequent restoration of prices by withdrawing its subsidy programs. If the independents did not follow by increasing their prices to levels that the majors found acceptable, then the price war would begin again. Case studies conducted by Imperial on the Ontario price wars in the late 1950s indicate that in some centres the independents were forced to raise their prices. These same case studies reveal that communications about the object and intent of branded price reductions took place between Shell and Imperial.

The price wars that the majors directed against the independents from as early as 1957 continued to varying degrees until 1963-64. The pattern of these price wars remained the same. Rather than improve the efficiency of their branded gasoline distribution networks in order to compete with the independents, the majors lowered their branded prices to squeeze the independents’ margins and thereby attempted to force them to raise their prices.

In a July 1959 study of the price war in the Greater Toronto area, Imperial concluded that some high-volume independent dealers were able to operate comfortably on a 4 cent per gallon margin. The independents were able to compete, according to this study, partly because they could secure product supplies at below normal wholesale prices and partly because they combined

these low-cost supplies with a large sales volume per outlet. The study also noted that, in Imperial's view, dealer margins that had grown to a level of 8½ cents in Toronto had become "*excessive*". (Volume VI, p. 63) In spite of these realizations, Imperial continued to lead the industry in restricting the price competition emanating from the independent sector.

The disciplinary strategy used against the independents was effective not just because Imperial followed it, but because other majors also generally implemented similar programs. A study from Texaco observed that in 1962 most of the majors, following the lead of a "principal company", dropped prices to meet the independent marketers. Their apparent objective, according to the study, was to achieve price stability through "*'disciplining' unbranded jobbers to maintain retail prices at a level which will yield a reasonable return at the service station level*". More explicitly, the study noted that "the stand taken by this principal company appears to be a move towards lower prices in order to *force unbranded jobbers to raise their prices to equal that of branded outlets*". (Volume VI, p. 214) Other companies were even more explicit about where the leadership was coming from. In referring to the price wars of the early 1960s, BP noted they were "waged principally by Imperial Oil". (Volume VI, p. 246)

The other majors not only followed Imperial's lead; they also perceived the same competitive threat to emanate from the independent sector. Both Gulf and Shell recognized that, relative to the independents, their branded distribution network was inefficient. Both used subsidy programs to reduce their prices to counter the independents. Gulf recognized these subsidies lowered their prices to "*below economic levels*". (Volume VI, p. 75) Shell data shows that under the subsidy programme it used in the Toronto area, the differential between Shell's crude costs and its realizations — the total amount available to cover all refining and marketing costs — fell below Shell's marginal cost of producing 'pooled' motor gasoline in the Ontario region for substantial periods between 1959 and 1963. (Volume VI, pp. 70 and 74) Therefore, during these periods, Shell was not recovering the marginal costs of its refined products and was making no contribution to its marketing costs.

Finally, all these companies treated their price reduction programs as temporary. When the threat from lower cost marketers was eventually contained, the programs were removed. Therefore, in that the majors had a common problem and adopted similar policies that were aimed at the independents, they can be classified as having acted as a unit to restrain competition.

#### (d) *Consignment and Temporary Allowance Programs*

In responding to the independents in the late 1950s and early 1960s, the majors employed two policy instruments — temporary allowances and consignment — to gain control over the pricing of their branded dealers. Both tools were used to develop a systematic price discrimination structure to discipline the independents.



Temporary allowances took the form of reductions in a dealer's normal wholesale price. A dealer was left to determine his final pump price. The schedule of allowances that was granted was a function of the dealer's pump price. As a dealer reduced his pump price, he was compensated with some corresponding, although generally not equivalent, reduction in his wholesale price. In this fashion, the oil companies subsidized a dealer's margin when he dropped his pump price.

Temporary allowances had several drawbacks as disciplinary devices. First, the final pricing decision was left with the dealer as required under the resale price maintenance provisions of the Combines Investigation Act. This made it difficult for the majors to price at the exact levels required to constrain the independents. Second, in order to respect the price discrimination provisions of the Combines Investigation Act, these allowances had to be granted to dealers on a wide basis. This increased the costs to the oil companies of responding to the independents. Third, there was also the risk of spreading the very price competition the allowances were intended to contain, since other majors which might not have exactly the same zones within which allowances were granted might react in such a way as to spread the area in which prices were reduced.

Each of these problems could be reduced or avoided if consignment rather than temporary allowance programs were used. Under consignment arrangements, title to the gasoline remained with the oil company, and the dealer simply became an agent. Consignment could, therefore, be used to control the retail price more precisely, since by putting a dealer on consignment, the oil company could set the retail price directly. Nor did consignment arrangements raise the same problem with the price discrimination provisions of the Combines Investigation Act as did temporary allowances, since technically no products were sold to competing dealers. Because of this, consignment could be used to reduce prices more selectively. It was, therefore, a less costly device than temporary allowances for use against the independents.

Consignment and temporary allowances were intended to be only temporary tools and were directed at protecting the existing branded network from price competition. Both were aimed at maintaining the higher prices that the majors needed to cover their high costs in the face of competition from lower cost marketers — the independents. These programs were implemented because the majors fully comprehended that they could only meet the independents' price levels by moving their own prices below long run average costs and, therefore, wanted to do so in a selective way in order to minimize the costs of disciplining the independents. With these programs, the majors adopted a systematic price discrimination policy by lowering branded prices in pockets where independents existed and by maintaining higher prices in those markets not affected by price competition. The disciplinary policies thereby pursued



were generally successful in forcing the independents to increase prices to a level only 1 to 2 cents per gallon below the majors' price levels.

In addition, the majors' practices established their intention of disciplining any new unbranded marketer and, thereby, reduced the incentive for entry. The purpose of the majors' price-cutting strategy was to control the rate of entry by the independent sector, to prevent its expansion, and in the long term to limit the amount of price competition in the gasoline market. The success of the policies used in the late 1950s and early 1960s led to a perpetuation of the marketing inefficiencies of the branded networks.

(e) *Price Restoration and Increasing wholesale-Retail Margins, 1964-71*

Following the price wars of the early 1960s, Imperial led a price restoration movement. The independents, having had both margins and volumes squeezed for several years, followed the majors' lead and adopted the differential that the majors, through their actions and communications, had indicated they would allow. As a result, the majors generally withdrew consignment and temporary allowance plans, except in a few pockets where price competition remained. In the period from 1963 to 1967, when retail prices and retail-wholesale margins moved upwards, the majors reaped the fruits of their disciplinary pricing strategy. As prices and margins increased, the majors reverted to emphasizing the conventional forms of non-price competition such as location, service, promotions, and credit.

The wholesale and retail margins achieved by Gulf Oil, shown in Table 14—for Montreal, Toronto, and Vancouver—exemplify the course of the market between 1958 and 1967. (Volume VI, p. 84) In each of these three cities, there was significant competition from new independents. In each, Gulf was able by 1967 to return margins to their 1958 levels. These earlier levels had been described by Imperial as "excessive."

**TABLE 14**  
COMBINED WHOLESALE AND RETAIL MARGINS, GULF, 1958-67  
(cents per gallon)

<i>Year</i>	<i>Montreal</i>	<i>Toronto</i>	<i>Vancouver</i>
1958	15.8	14.4	15.1
1963	10.0	7.3	9.9
1967	15.9	16.5	15.1

Gulf itself used the terminology "Fat" or "comfortable" to describe the margin required to cover the majors' high cost marketing system. (Volume VI, pp. 25 and 51) During this period, the costs of an efficient large-volume

independent marketer did not show any major change — at least not as they were perceived by the majors. Therefore the disciplinary strategy adopted by the majors may be said to have re-established margins that were “excessive”, in comparison with the standard established by an efficient independent marketer.

The upward movement of wholesale-retail margins continued through the late 1960s to 1971. For instance, Gulf’s wholesale and retail margin in 1965 in Winnipeg was 11.0 cents per gallon; in 1971 it was 18.1 cents per gallon. In Calgary, Gulf’s margin increased from 12.7 cents per gallon to 18.3 cents per gallon between 1965 and 1971. (Volume VI, p. 90) The course of the margins earned by other majors during this period was similar. As the majors and their dealers increased their margins in the late 1960s, the gap between the majors’ prices and the independents’ costs widened. The market share of the independents began to grow, since these firms, according to one major, began to price more in relation to their own costs than to a fixed discount off branded prices as they had been forced to do in the early 1960s. As a result, the spread between the majors’ and the lowest discounters’ prices widened.

At the same time as the majors were pushing margins to record levels in the late 1960s, they continued to recognize that the independents’ approach to gasoline marketing was more efficient than their own. In 1970, BP noted:

“... there is currently about 16 to 18 c.p.g. between refinery gate wholesale prices and the consumer where list prices prevail. *This is too high*; gasoline can be distributed at about 12 cents if outlets have sufficient volume.” (Volume VI, p. 84)

Gulf, too, recognized the inefficiencies of the majors in 1972 when it stated:

“THE KEY PROBLEM THAT ALL MAJOR COMPANIES HAVE IS THE LARGE NUMBER OF LOW VOLUME, LOW POTENTIAL NON VIABLE STATIONS RESULTING FROM THE EXPANSION IN THE 50’S AND EARLY 60’S.

THESE ARE THE MILLSTONES AROUND THE NECK OF THE INDUSTRY AND *HAVE ONLY EXISTED AS LONG AS THERE WERE FAT MARGINS AVAILABLE*. THEY ARE NOT ABLE TO COMPETE IF MARGINS ARE NARROWED AND ARE NOT CAPABLE OF DEVELOPING THE INCREASED VOLUME REQUIRED.” (VOLUME VI, P. 51)

Shell had the same perception of the problem. In 1972 Shell attributed the success of the independents to their ability to draw on a lower cost structure and the volume multiplier. Later that year Shell commented that the growth of the discounters was only a symptom of the problem faced by the majors. The problem was identified as the 18 cents per gallon required by the major marketers to cover their costs.

Imperial, who also recognized the cost advantage of the independents, admitted in 1972 that the discount brands did not enjoy a significant cost advantage in obtaining gasoline supplies; rather, their principle advantage, lay

in their lower cost marketing activities. Imperial concluded that its own high-cost distribution system was vulnerable to competition from independents because they offered consumers a price discount in lieu of some services.

Rather than improve their own relative efficiency in the face of increased competition from the independent sector, the majors proceeded much as they had before. First, increased capital was invested in their branded gasoline network in the late 1960s and early 1970s. The construction of car washes, diagnostic centres, and convenience food stores was an attempt to meet the price competition of the independents with an investment in facilities.

Second, the majors supported their branded network through temporary allowance and consignment programs. Third, the majors entered into direct competition with the independents in the lower priced markets by establishing their own second brand or "fighting brand" networks. Both the temporary allowance or consignment programmes and the second brand networks had the same purpose: they were meant to discipline the independents and to establish a price differential between the branded and unbranded products that was otherwise not sustainable. Finally, when market conditions warranted, several majors used their control over the refining sector to increase wholesale prices to the independents. This action was part of a twofold strategy of lowering retail and increasing wholesale prices in order to squeeze the independents.

The success of the methods employed against the independents can be attributed to the uniform nature of the majors' programs. While all companies did not adopt exactly the same policies to contain the independents, each company perceived the same threat from the independent gasoline marketers and adopted the variant that was best suited to its own situation. All policies had the common goal of restraining the independents. In this sense, the majors' policies can be said to have been the result of a conscious attempt to provide a united front against price competitive outsiders. The majors acted as a unit employing disciplinary policies to entrench the monopolistic position in marketing that they owed to their control upstream in refining and in the acquisition of crude oil.

In the marketing sector as in the others, Imperial was generally the industry leader. Imperial regarded itself as the dominant firm and recognized that the other national brand majors and regional marketers would follow its lead in the marketing sector. Shell, too, was a major influence on the market and occasionally acted as a price leader. But Shell referred to Imperial as the "market leader". Shell took care to study Imperial's actions against the independent sector before it proceeded with its own policies. For instance, Shell examined Imperial's fighting brand operation before it created its own in the late 1960s. In 1972 Shell observed that Imperial's wholesale and retail price policies were squeezing the independents with the objective of forcing prices upwards and then patterned its own policies after them.



Imperial and Shell provided leadership in increasing prices, introducing policies against the independents, and effected price restorations by withdrawing subsidy programs. Both attempted to enhance the probability that the other firms would follow their lead. They used direct and indirect forms of communicating their intentions so that others could harmonize their policies with those of the leaders.

Gulf and Texaco, as well as the regional marketers, were followers. Gulf stated that it “traditionally” followed Imperial and/or Shell in extending price support to its dealers. It also followed these firms during periods of price restoration. In 1974 as prices were moving upwards, Gulf’s pricing policy was to move only after the other majors had moved first and always to set its price equal to the higher of Imperial or Shell. Texaco too also waited for the other majors to implement price schemes before it did so. In 1971 Texaco stated that its philosophy was to wait until Imperial, or Shell and Gulf, or any two of these firms had assisted their dealers before it would implement a similar program.

The regional marketers, such as Sun, BP and Petrofina not only emulated the expensive gasoline marketing approach of the majors, but also adopted similar policies to counter the independents. In respect to both marketing policies and prices, the regional marketers followed the leading firms.

(f) *A New Challenge From the Independents, 1968-73*

During the late 1960s and early 1970s the majors used various disciplinary policies to enable them to extract wider and wider margins in their branded distribution network, all the while keeping competition from the independent sector in check. The four national majors, and some regional marketers such as Sun and Petrofina, adopted consignment or temporary allowance arrangements of one form or another to lower their retail gasoline prices selectively. These price reductions, which were directed toward the independent sector, were not intended simply to meet the competition emanating from there. Rather, these policies were meant to restrict competition from the independents and thereby to maintain the majors’ high prices for branded gasoline.

As the majors experimented with higher and higher prices, they discovered that the competition offered by the independents was greater in some areas than others. Rather than decrease branded prices everywhere, the majors implemented subsidy programs to reduce branded prices only where this was necessary to restrain the independents. Along with the use of fighting brands, in the words of one major, the subsidy programs for the brands could be used to give the independents a “two-fold jolt”. (Volume VI, p. 134) In the early part of the period, these policies protected the majors’ margins from erosion. But they did not eliminate the threat that the independent sector offered and eventually this sector began to expand. This created a new problem for the

majors. In addition, changes in the world crude market threatened the majors with a loss of their pre-eminence in the crude oil sector. This increased the importance of controlling downstream markets.

In response to these forces, the majors developed and implemented a pricing strategy in 1972 that no longer just restricted the growth of the low priced unbranded segment of the gasoline market; rather, it appears to have been aimed more than ever before at the elimination of this sector. As part of this policy, subsidy programs were used to bring the majors' branded prices to a level of 2 to 4 cents above the independents' prices — a level below the differential in costs between the branded and the independent sectors. In the short run, the majors believed that this differential would restrict the growth of the independent sector; in the long run, they believed that the independents would be sufficiently damaged that a restoration of prices to previous levels would be facilitated.

The consignment and temporary allowance subsidies that were implemented during this period were extensions of the programs that were used so successfully to discipline the independents in the early 1960s. The actions of various majors and the reasons advanced for implementing these policies in the later period provide additional reason to describe these programs as monopolistic practices that were inimical to the public interest.

Both Shell and Gulf stressed their appreciation of the threat that the independents posed because of the latter's lower costs. They implemented subsidy programs to prevent price competition caused by the independents from spreading. Their subsidy programs were directed towards containing the independent as well as restoring prices, for both companies built incentives into their subsidy schedules for dealers to restore prices.

Shell and Texaco also stressed that the containment of price competition required a careful delineation of the zone within which price subsidies would be granted. This was meant to reduce the cost of disciplining the independents and to prevent, as much as possible, retaliation from other major companies. Both companies narrowed the price zones when the disciplinary strategies became more intense.

Shell developed a concept of variable pricing — or "feathering"—in different areas. Under this form of its temporary allowance program, the amount of subsidy offered by Shell was progressively reduced in zones away from the lowest price area. The object of this policy, as Shell stated, was to "*contain the zone of reduced unit proceeds within as small a compass as possible*". (Volume VI, p. 119)

Consignment replaced temporary allowances when disciplinary action against the independents became more intense in 1972 and 1973. At first, firms like Shell and Texaco developed a more selective approach to the granting of allowances by narrowing the zones within which they were granted. But by 1972

consignment was generally adopted in order to bring greater pressure to bear on the independent sector. Shell, Texaco, and Gulf recognized that a consignment program allowed more selective price differentiation and, therefore, was a less costly disciplinary tool. Greater selectivity was also recognized as being valuable because it reduced the risk of spreading price competition. Finally, consignment was seen by firms, such as Texaco, to allow the control needed in order to facilitate price restoration. Since price restoration was the ultimate goal, consignment was meant to reduce price competition and to increase prices.

Gulf's experience demonstrates how the majors' policy to discipline the independents evolved. Gulf, like the other majors, recognized the threat the independents posed because they priced below the majors' branded network. Gulf further recognized that the majors could not meet the independents on a price basis because of the relative inefficiency of their own gasoline distribution systems. In 1972 Gulf developed a two pronged policy of increasing wholesale prices and decreasing retail prices on a wide scale. In developing its consignment program, Gulf drew on its experience in Sault Ste Marie, where it had experimented with a consignment program in an attempt to force up the price of some independents. From this experiment, Gulf ascertained the price differentials required to discipline the independents and the type of signals required to lead prices up. These lessons were incorporated into the policy that Gulf implemented in 1972.

The price levels that all of the majors adopted in 1972 at the most aggressive stage of their disciplinary activities left the differentials in prices between the majors' and independents' products below the cost advantages that Gulf, Imperial and Shell recognized the independents possessed relative to the majors' branded dealer network. But as was the case in the early 1960s, the subsidy programs were only temporary measures adopted to increase the independents' prices. By 1973, when the independents were forced to increase prices, the majors had either eliminated or reduced the extent of their subsidy programs substantially.

### (g) *Fighting Brands*

At the same time as subsidy programs were being used to combat the independents, the majors — albeit to varying degrees — adopted a second method to discipline the price-competitive marketers. Chains of low-priced, unbranded or second brand stations were developed and used as "fighting" brands to protect the majors' branded network. Two of the majors — Imperial and Shell — developed extensive second brand networks. Texaco developed a second brand network as well but its representation was much less widespread than that of either of the first two. Gulf did not operate one extensive chain but participated through the use of a variety of stations owned formerly by the



independent firms it had acquired over the years. Some of the smaller majors like Sun and BP also developed second-brand networks.

Second brands were essentially a refinement of the temporary allowance and consignment system. They permitted a greater selectivity of response to independents than either of these two subsidy programs. They were, therefore, a more efficient disciplinary tool. Second brands were developed originally as part of a market segmentation strategy. They were used to draw business away from the independents and to contain this sector while the majors' branded prices were pushed to record highs in the late 1960s. Second brands eventually came to be used to do more than just contain competition from the independent sector. By 1972 second brands were used more as a disciplinary tool to effect a restoration of the independents' prices to levels where they would not affect the branded market. Evidence on the intent of the majors to use second brand chains as fighting brands, on the perception of the majors that second brands were unprofitable, and on their success in raising the independents' prices all demonstrate that these second brand chains were predatory.

Imperial was a leader in the development and use of second brands against the independents. In the late 1960s and early 1970s, Imperial developed several second brand chains as part of its market segmentation approach. Essentially, Imperial divided its market into three levels according to the price charged. The first tier included the highest priced market, characterized by "service oriented" high-cost products such as was provided by the Esso brand. The second level encompassed the "clean discount" operators, such as Canadian Tire, who only priced at moderate discounts below the majors' branded networks. Imperial set up second brands such as Econo in Ontario and R  lais in Quebec in this segment. At the third level — identified as the "deep discount" market served by the more aggressive independents — Imperial established "third" brand chains such as Gain as well as unmarked stations designated simply "Gas".

Imperial's second and third brand networks were devised as part of a general strategy aimed at restraining "growth in [the] discount segment to permit growth in [the] major brand segment". (Volume VI, p. 278) In following such a strategy, Imperial took aim primarily at the middle range of discounters; but, it recognized that other firms would also be affected. Imperial's Quebec strategy study noted that "in attacking the prime target 'the price-off' clean outlet, we affect others". (Volume VI, p. 295) Imperial recognized that its strategy would eventually drive some independents from the market. In discussing its pricing strategy, an Imperial study noted that "at this price level, discount volume growth will be retained and there will be significant competitive disinvestment within the medium term". (Volume VI, p. 295) It is significant to note that Imperial's main second brand network — Econo — recorded negative levels of profitability during the period that it was being used in this fashion.

Other majors recognized the predatory or disciplinary effect that Imperial accomplished with its second brand networks. Gulf observed that Imperial's Econo brand was used "to directly meet reseller competition while the Esso brand provides price leadership". (Volume VI, p. 271) BP referred to the effect of Imperial's second brands, along with those of Shell and Sun, by observing:

*"This will no doubt in time raise the price at all unbranded outlets and get the price more in line with the branded dealer."* (Volume VI, p. 272)

Shell referred to Champlain — Imperial's second brand in Quebec — as a "fighting brand":

*"Esso, through Home and its subsidiary Econo are expanding in the unbranded market. Esso's Champlain brand is used as a fighting brand when required."* (Volume VI, p. 272)

Shell also carefully studied the use of second brands by Imperial and observed in 1972 that Imperial "put the squeeze on the Unbrandeds through higher wholesale prices, combined with volume dilution in the market place". (Volume VI, p. 298) Shell noted that Imperial used its power at the wholesale level in order to force independents to price at a certain level, but that Imperial's Econo and Gain "were frequently below that price". (Volume VI, p. 331) All of these observations are significant because, as a leader in the marketing area, Imperial, through its actions, affected the other major firms and influenced them to adopt similar or complementary marketing strategies. This was most obvious in the case of Shell.

Shell adopted the same three tiered marketing approach as Imperial. Heavy investments were made in the branded segment, particularly in car washes. Gasoline prices at Shell's branded stations were set to cover its high marketing costs. However, Shell was aware of the independents' cost advantages and responded to competition from this sector by implementing a two-tiered second brand policy.

Shell initiated the development of its own second brand network after it had observed that Imperial was using second brands to contain the independents. Shell also devised two separate second brand networks in order to constrain independents who were pricing at different levels. For instance, in Ontario, Beaver was used against independents pricing at only a moderate discount and Gas Mart for the lowest priced or deep discount areas. Second brands were used by Shell, along with its subsidy programs, to lower prices selectively in areas where independents were located. Shell's policy of meeting the independents with strategically located second brand stations while maintaining the high branded price structure was described by Shell as "*fighting with concubine, holding on the brand*". (Volume VI, p. 123)

Second brands were established by Shell primarily in those markets where independents operated. Shell's second brands acted as both a substitute and a complement for Shell's temporary allowance and consignment subsidy programs. Recognizing that allowances could potentially lead to a competitive price reaction from other majors, Shell chose second brands to implement price reductions against independents, since this allowed the company to be more selective and thus to reduce the likelihood of competitive reaction from other majors. Since second brands could be used more selectively, Shell felt they were also a less costly method of constraining the independents. Finally, they provided greater control of the price level. While these characteristics made second brands preferable to one or other of the subsidy programs for the brand in some situations, they were not used alone. When Shell became particularly aggressive against the independents in the early 1970s, it used the two-pronged approach of meeting the independents with its second brands and selectively reducing branded prices through consignment programs. In Shell's words, this approach was meant to give its competitors a "two-fold jolt".

Shell's objectives for its second brand network went beyond the containment of low-price zones. By the early 1970s, Shell's operating divisions were instructed to use second brand operations to gain control of as much of the discount market as possible with the objective of then narrowing "*the price differential between major and private brands*". (Volume VI, p. 135) One Shell study explicitly stated that its strategy would be aimed at diluting "the private brand market in deep discount areas with the express intent of price restoration". (Volume VI, p. 135) To this end, Shell used its second brands to meet the independents' prices, to draw off their volume, and then to lead prices upward. If the independent at first did not follow the price restoration, Shell repeated the process.

While this procedure was being implemented, Shell considered its second brands as only a temporary measure; instructions were given to debrand only those Shell stations that could be rebranded at a later date. In other cases, second brand networks were created with the intent of being used as "short term" vehicles. These vehicles not only adopted short term aggressive pricing policies but were unprofitable. Shell generally maintained a high level of service at its second brand stations. This contributed to these networks being able to draw volume away from the independents when priced at the same level. The combination of the costs incurred in providing this high level of service and the fact that prices at these second brand stations were at the low end of the market meant that many were unprofitable. Evidence shows that Beaver — Shell's major second brand network — incurred losses. (Volume VI, p. 142)

While Gulf did not introduce second brand stations on the same extensive basis used by both Imperial and Shell, it did evaluate the purpose and effect of their second brand networks. Gulf's observations correctly captured the



spirit and objectives of Imperial and Shell and indicate why the majors were able to co-ordinate their policies, although they did not adopt exactly the same strategies against the independents.

As early as 1969, Gulf observed that Imperial was developing a second brand chain that could be used as a “*weapon against the unbranded price discounters*”. (Volume VI, p. 177) Gulf further observed in the early 1970s that Imperial, Shell and Texaco were using their second brands to contain the independents while they were increasing their wholesale-retail margins in the branded sector. Referring to Shell, Gulf observed:

*“Their intention appears to be to gain control of as much supply of gasoline as possible in both the branded and unbranded markets and in that way control, and eventually, improve realizations. Their Gas Mart operations are used as a temporary measure to keep jobbers out of the market.”* (Volume VI, p. 179)

Gulf also appreciated the temporary nature of the process. In commenting on Shell’s second brand chain, a Gulf document correctly noted: “Shell dealers have been advised that the substantial conversions to Beaver are in order to ‘stabilize the market’ and that the outlets at some future point of time will be re-branded to Shell”. (Volume VI, p. 179)

The second brand programs of the other majors were referred to by Gulf as a “*big stick*” approach. (Volume VI, p. 180) Gulf noted that this instrument was used against the independents, that it was apparently intended only to be temporary, and that the discount networks operated by the majors could not be operated profitably. After careful study, Gulf concluded that a second brand network could not be operated by the majors as cheaply as the independents and that by pricing in line with the independents, second brands would incur a loss. This prediction was not dissimilar to the same observation that was made by Shell when it expanded its second brand network to counter the independents. Thus it may be argued that the unprofitable nature of the “big stick” approach was readily appreciated by the majors.

Texaco followed the lead of the other majors both in its adoption of consignment and temporary allowance programs as well as in its use of second brands. Texaco studied the actions of the other companies and adopted a similar though less extensive second brand policy. Like Shell and Imperial, Texaco realized that second brands allowed the majors to tailor their geographic price discrimination program to fight the unbrandeds while maintaining high branded prices elsewhere. Texaco used the names Regent in Ontario and Independent in Quebec for its own second brand network. Texaco’s second brand network was smaller than that of either Imperial or Shell, but it was generally used in the same areas. Texaco’s policy was only to use second brands in a few areas where there was strong competition from the independents and, in these areas, to meet the price competition from the unbrandeds. Texaco’s second brands were meant

to be temporary and were intended to be used to force up prices at the unbranded stations.

One of the regional marketers, Sun Oil, imitated the majors by developing a second brand network. Sun was of the view that entry of the major refiners into the discount gasoline market would contain the growth of the independent sector, and adopted the same strategy. Sun limited its "aggressive unbranded strategy" to areas of strong price competition. It developed a second brand network as a temporary measure and planned to withdraw from that segment of the market when competitive conditions permitted.

#### (h) *The Wholesale Squeeze*

Disciplinary policies aimed at the independent sector were invoked by the majors at the wholesale as well as the retail level. In the late 1960s and early 1970s, the major oil companies used their control in the refining sector to reinforce the disciplinary retailing policies that they were directing against the independents. Efforts on various occasions were directed at increasing wholesale prices to the independent sector.

In late 1967 and 1968, during a general price increase, the majors followed similar policies that "squeezed" the independents. As the wholesale price of products was increased, thereby affecting the independents' costs, the majors implemented subsidy programs in areas of independent activity to keep their own retail prices from increasing by the same amount. This stance was led by Imperial and followed by Texaco, Shell, and Gulf. Texaco adopted the same policy as Imperial knowing that it would put pressure on the independents; Texaco also recognized the administrative complications of following such a policy. Texaco's actions supported Imperial's activities and demonstrate why the industry leader was able to count on reinforcing actions from other majors in response to its initiatives.

In Ontario, in the early 1970s, Shell and Imperial not only spearheaded predatory activity at the retail level, but they also led the wholesale "squeeze". The activities of these two firms were effective because, between them, Shell and Imperial controlled most of the surplus refining capacity in Ontario at the time. Shell's wholesale pricing policy was part of a general strategy aimed at trying to lead retail prices upward. In the same study that noted Shell would attempt to lead retail prices upward by its actions in the second brand market, Shell outlined plans to increase the costs of the independents by increasing wholesale prices.

In this respect, Shell did not act independently. Shell adopted its wholesale and retail pricing policy in full knowledge that it would be supporting actions by Imperial that were aimed at increasing the independents' retail prices by squeezing this sector. The actions of these two firms helped to force up wholesale prices paid by the independents. Discounts off the tankwagon price

(the wholesale price charged the majors' branded networks) were reduced to only 3 to 4 cents per gallon — less than the the amount justified by cost differentials at the refinery level in serving the independent as opposed to the branded segment.

Like Shell and Imperial, Gulf's policy at the wholesale level was devised to complement its retail strategy. Gulf recognized that, in order to restrain competition from the independent sector, it would have to squeeze this sector and that two avenues were open to it. The first involved reducing the pump prices of gasoline. Gulf did this through a detailed program of consignment that dropped its branded price to within 2 to 4 cents per gallon of the independents' prices, despite its knowledge that the cost difference between itself and the independents was much higher. The second route that Gulf noted could be used to squeeze the independents was by "*increasing the price at which Resellers can purchase product*". (Volume VI, p. 342) Gulf aimed its wholesale policy towards this goal.

On the Prairies, surplus refining capacity was controlled by Gulf in the early 1970s. Gulf took advantage of this situation and applied pressure on the independents' margins by raising wholesale prices. Eventually Gulf extended across Canada this policy of reducing the discounts from tankwagon prices quoted to independents. By the end of 1973, it had generally reduced the discount to 4 cents per gallon — the same amount established by Imperial and Shell in Ontario during their squeeze of the independents in eastern Canada.

#### (i) *Conclusion*

The response of the major oil companies to price competition from the independent sector can be described as predatory for several reasons. First, because of the cost differentials between the independents and the majors' branded networks, the majors had, by necessity, to keep their prices below their own long run average cost level to discipline the independents. Second, the majors' policy was not aimed at providing consumers with lower prices in the long run. The temporary nature of the subsidy programs alone demonstrates that the majors' intent was to raise prices. In addition, a number of firms either indicated their intent was to raise prices or demonstrated an understanding that it was the intent of others to raise prices and adopted complementary or reinforcing strategies of their own. Finally, that the majors were willing to direct both wholesale and retail pricing policies against the independents provides additional evidence of the anti-competitive intent of these firms.

In the face of the acknowledged cost superiority possessed by the independent sector, the majors' predatory actions had particularly serious consequences for the public interest. The consequences of the disciplinary policies can be found in evaluations made by certain members of the industry. These evaluations concluded that disciplinary policies had three effects. First,



entry by lower priced marketers was reduced. Second, some lower priced competitors were eliminated. Third, the scope of those firms remaining was reduced and their ability to expand limited. But the ultimate effect can be found in the performance of the market. The majors were able to perpetuate a high cost branded network that they recognized could not be sustained in the face of price competition from the independent sector. The end result was that retail-wholesale margins were kept at higher levels than a more competitive market would have established.

In summary, the performance of the marketing sector was detrimentally affected by both the mutual forbearance among the majors that restricted price competition in this industry and by the predatory practices that were used to entrench the monopolistic position of the majors. Both aspects of the major oil companies' behaviour show that they were able to act as a unit. That for most of the postwar period they were able to avoid adopting the efficient low-priced distribution system that the independents demonstrated was acceptable to the public is proof of the extent of their control. This control in the marketing sector was protected by the use of predatory practices that were aimed at the independents and that were meant to create artificial entry barriers.

Although for some purposes marketing can be treated as a distinct sector, neither its performance nor the trade practices found therein can be properly understood except in the context of the degree of vertical integration that characterized this industry. If the structural characteristics of the marketing sector alone were the sole determinants of its market performance, this sector might have been expected to perform relatively well. The technical characteristics of this sector taken alone appear to make entry to the industry relatively easy. Barriers to entry from "natural" sources have normally been described as being lower in this sector than in the others. Therefore unnecessarily high marketing margins should not have been sustainable for long periods of time nor should predatory practices have been effective in maintaining high wholesale and marketing margins.

Nevertheless, throughout much of the postwar period, retail-wholesale margins were kept at levels that the industry recognized as excessive. This was the result of two separate factors, both of which partially owed their success to the relationships that developed among the majors at other levels of this vertically integrated industry. The majors' tendency not to engage in price competition with each other and their parallel use of predatory restrictive practices against the independents depended upon the ties that had developed both at the refining and the production levels of this industry.

It should be noted that marketing was not the only sector whose performance was affected by arrangements made in other sectors. The arrangements that forged the majors together into a unit in the marketing sector also

contributed to the stability of the mechanisms that were used to co-ordinate behaviour in other sectors. Vertical integration by the same firms into different levels of the industry, therefore, reinforced the co-ordination that developed at each level.

## 6. *Vertical Linkages*

The behaviour of the majors outlined in the volumes on the international, production, refining, and marketing sectors provides an illustration of the monopolistic conditions or practices that existed at each level of the industry. But the real extent of the monopolistic situation that existed in the Canadian petroleum industry becomes even more apparent when the activities of all the oil companies at each level are considered together. Because of the linkages between the separate sectors, occasioned by the degree of vertical integration in this industry, actions of the majors in one area affected other sectors. Thus the importance of the monopolistic practices employed in any one sector, which might otherwise have had less detrimental effect, were magnified and further entrenched the majors' control.

As a result of the mechanisms that drew the majors together in the refining sector, the conditions in this sector affected most of the others. The level of concentration was highest in the refining sector, inter-firm contacts were numerous, and an "industry-approach" evolved, tying the interests of the various majors together.

The effect of the interdependence that developed from the product supply agreements in the refining sector was felt both upstream and downstream. Upstream, in the production sector, the agreements helped to forge a common set of interests that enabled the majors to agree on a pricing policy. Downstream, because of the market-sharing agreements at the refinery level, a common interest developed that made possible the understandings over the use of mutually reinforcing disciplinary activity in the marketing sector.

While the mutuality of interest that developed from inter-firm refinery supply arrangements contributed to the ability of the majors to co-ordinate their disciplinary behaviour in marketing, behaviour in the refining sector also contributed to the effectiveness of the disciplinary policies that were followed in marketing. Predation is less likely to be effective when entry barriers are low. The major refiners discriminated against the independent marketers, either by refusing to provide them with supply or by supplying them on unfavourable terms. Both actions would have served to control the ability of the independent marketers to compete and to create entry barriers to the marketing sector, thereby enhancing the effectiveness of the disciplinary pricing practices employed therein.

The effects of anti-competitive actions did not flow just from the refining to the marketing sector. The disciplinary pricing policies that were used

to constrain and to discipline the price-competitive independents in the marketing sector also affected performance in the refining sector. Given the existence of substantial economies of scale in the refining sector, entry was easier for those firms with a marketing system that could economically absorb the products from a large-scale refinery. Therefore, the disciplinary policies that were employed in the marketing sector also affected the ease of entry to the refining sector. In addition, it was recognized that large independents could force the refiners to compete for their business, but that small independents could not create this "whipsaw" effect. Restrictions imposed upon the independents in marketing by the disciplinary practices employed against them served to limit entry, the size of the entrants, and price competition in this sector. In turn, this contributed to the maintenance of the majors' monopolistic position in the refining sector.

Policies adopted in the refining and production sectors also interacted to reinforce the development of monopolistic conditions in each of these sectors. In the production sector, the pricing mechanism distorted the relative prices of the various types of crude oil. In addition, the allocation procedure gave control over the disposition of the various crudes to the two dominant firms — Imperial and Gulf. This procedure gave these two firms an effective method of disciplining the refining sector, because they could suddenly provide maverick refiners with a crude stream whose cost did not reflect its value. This mechanism provided a degree of control in the refining sector that contributed to the development of further co-operation at this level.

The interaction in the production and refining sectors was not, however, unidirectional. The degree of concentration at the refining level, with its attendant tendency to concentrate purchasing of crude, helped several of the majors to entrench their dominant position at the production level by gaining "first purchase control" over crude oil. In turn, this permitted them to control crude pricing and pipeline transportation.

Finally, the industry's behaviour in the international sector either was facilitated by or depended for its effectiveness upon activities of the majors in other sectors. The harmonization of prices for imported crude at higher than arm's-length levels was facilitated by the close working relationships that brought the majors together elsewhere. For instance, the pipeline company that imported crude oil into Montreal provided price and transportation cost data to the industry. At the refining level, the frequent discussions on product exchanges provided some firms the opportunity to exchange information on transfer pricing policies. In at least one instance, a refinery exchange or processing agreement actually led two firms to co-ordinate their crude oil prices.

While contacts at other levels of the industry facilitated the adoption by most of the majors of analogous, high transfer pricing policies in the import sector, the effectiveness of these policies in influencing and maintaining high



Canadian prices for petroleum products depended upon reinforcing behaviour in the marketing sector. Without the parallel use of disciplinary activity downstream, the high costs for crude imports could not have translated into high product prices. High retail prices resulted not only from the similar transfer pricing policies of most of the majors but also from the parallel disciplinary strategies that were employed against outsiders at the marketing level. Independent marketers who tried to expand by importing refined products that reflected the lower world prices were met with the majors' allowance, consignment, and "fighting brand" programs directed towards either eliminating or reducing their impact on price competition. Without the restraint these disciplinary policies imposed on the independent sector, the majors would not have been able to pass high transfer prices for crude onto the product market.

In these various ways, the detrimental effect of the actions of the majors in each sector depended upon co-ordinating behaviour or parallel strategy in other sectors. Thus the industry structure and the co-ordinating mechanisms employed at any one level are not themselves sufficient to describe the amount of control exercised by the majors in that sector. The monopolistic conditions that evolved in this vertically integrated industry depended jointly upon co-ordinated activity in all sectors. Co-ordination at one level, which otherwise would only have imperfectly controlled that sector, was effective because of the co-ordination at other levels. The overall outcome of the majors' various monopolistic actions was greater than the sum of the separate effects in each sector, because the vertically integrated structure of the industry magnified the impact of the policies followed at each level.



## PART C

### CURRENT PROBLEMS IN THE CANADIAN PETROLEUM INDUSTRY

The international petroleum industry changed dramatically after the events of 1973. The shock to world oil prices caused by the Organization of Petroleum Exporting Countries (OPEC) led to a long process of adjustment that is still not complete.

In Canada, the rapid rise in oil prices, the subsequent recession, and the controls on exports reduced both domestic and foreign demand for Canadian petroleum products below levels earlier anticipated for the 1970s. In addition, the petroleum industry faced increased competition from natural gas and electricity. These factors combined to reduce the share of oil in Canada's total energy consumption from 55 percent in 1960 to 43.6 percent by 1979. The National Energy Policy statement accompanying the October 1980 Budget predicted a further decline in this share to 26.7 percent of energy consumption by 1990.<sup>1</sup>

Throughout the post-1973 period, governments have been increasingly involved with the problems of Canadian adjustment to the change in oil supply patterns. Until October 1980, when the federal government began to implement its new National Energy Program, the Canadian petroleum industry had operated within the framework of two major government policies. The first, and the most important in terms of its effect on competition, was the policy of maintaining a "made-in-Canada" price for petroleum and petroleum products through the Oil Import Compensation Program. The second was the policy of restricting exports of oil and petroleum products through licences granted by the National Energy Board. The two policies were related in that export controls supported the "made-in-Canada" price for petroleum and petroleum products.

After the 1973 oil crisis, Canadian crude prices were set below world levels in order to cushion the impact of higher international petroleum prices on consumers and to keep Canadian manufacturing industries competitive with those in the United States where prices were also controlled. Canadian crude oil price increases were staged by administrative fiat.

Canada did not follow the U.S. method of maintaining crude oil prices below world market levels. In the United States, the price of crude oil from traditional domestic sources—"old or controlled oil"—was fixed in November 1974 at about \$5.25 per barrel for old crude and at a range of \$10 to \$12 per barrel for new crude. All refiners were allocated entitlements to a share of this oil. Imported crude was priced at the higher world market levels. Some refiners, such as those located close to tidewater, could make more efficient use of imported crude. Therefore a complex payments system was arranged that



transferred the rights to use less expensive "controlled oil" from these firms to others but which left the cost of crude roughly equal across different refiners. The distribution of entitlements by this regulatory system favoured smaller refiners and strengthened the position of independent refiners and marketers in the United States during the post-1973 period.<sup>2</sup>

By contrast, the Canadian federal government compensated importers of crude oil to bring the import price below the world level. The Import Compensation Program commenced in January 1974 and has been administered under the provisions of the *Petroleum Administration Act* since July 1975. Unlike the U.S. program, the Canadian policies favoured large domestic refiners. Because of the persistent excess capacity of domestic refiners — as a result of reduced demand for oil as well as limited access to export markets — the government added a provision in 1975 to pay \$1.50 per barrel *less* compensation for imported gasoline and other petroleum products than for imported crude oil. This differential was equivalent to a 4.3 cents per gallon protective tariff for domestic refining. This amounted to an increase in the previous tariff rate of 3/4 of a cent on gasoline and 1/3 of a cent on heating oil.<sup>3</sup> When added to the high cost of transporting refined product, the 4.3 cents per gallon protection provided to crude imports made most refined product imports prohibitively expensive. Importers would have been unable to resell products at a sufficiently high price to permit the recovery of the cost of acquisition, storage, and distribution. The compensation differential contributed to a dramatic reduction of refined petroleum product imports (Table 15).

The differential served to deny the independent oil terminal operators and other independent resellers the "import option" which they had previously relied on. Prior to the 1973 oil crisis and the introduction of the compensation differential these companies imported approximately 5 million barrels of refined products annually.

By importing product, or threatening to do so, the independent reseller was able to obtain part or all of his supply requirements from domestic refiners at reasonable prices and thus was influential in the market. By February 1979, however, the terminal operators, whose facilities are principally located in Quebec, held only a 3 percent share of the market for refined products and their role as alternative suppliers to small independent resellers was significantly reduced. Indicative of the declining importance of terminal operators was the fact that imports of light petroleum products declined to a trickle after 1974 (Table 15). Gasoline imports dropped from over 6 million barrels in 1969 to 13,000 barrels in 1978. The 1978 level was not even enough to supply the annual requirements of a single moderate-sized service station. Imports of light fuel oil also dropped dramatically, from 13 million barrels in 1969 to 80,000 barrels in 1978.<sup>4</sup>

**TABLE 15**  
**IMPORTS OF LIGHT PETROLEUM PRODUCTS,**  
**1958-79**

	<i>Motor Gasoline</i>	<i>Light Fuel Oil</i>	<i>Heavy Fuel Oil</i>	<i>Total Refined Products</i>
<i>(Thousands of barrels)</i>				
1958	2,894	7,053	7,486	30,451
1959	2,715	8,911	12,434	38,821
1960	886	6,981	13,439	35,212
1961	736	7,362	10,472	29,446
1962	788	5,622	13,503	30,312
1963	2,116	6,545	14,740	33,844
1964	2,058	7,183	20,497	40,165
1965	2,197	9,579	30,012	60,006
1966	2,405	8,607	30,470	57,417
1967	4,143	9,490	37,049	69,671
1968	4,168	13,769	32,290	72,958
1969	6,017	13,092	33,242	73,073
1970	5,075	10,861	34,705	70,150
1971	4,720	9,840	29,700	56,931
1972	3,055	9,402	26,358	51,174
1973	222	4,873	28,475	44,194
1974	30	1,889	18,744	30,275
1975	198	1,215	6,846	14,840
1976	43	181	6,621	13,245
1977	—	798	7,820	16,560
1978	13	80	10,368	18,244
1979	499	146	4,419	7,773

Source: Statistics Canada, Service Bulletin # 45-004.

As a result the terminal operators and other independent resellers became captive clients of the major refiners who were now their sole suppliers. Under the regulatory umbrella provided by the Import Compensation Program, the refiners effectively gained control of both wholesale and retail prices. While the Import Compensation Program did not by itself eliminate all competition among refiners, it did enable each refiner to reduce the operating margin available to independent resellers of gasoline and heating oil. The refiners charged wholesale prices to the independents that were high in relation to those the majors charged their own retail outlets, thereby squeezing the margins of the independents. This was the process that was used in the early 1970s in order to discipline the independents and to permit the majors to restore prices at a later date.

Guaranteed the Canadian market by the withdrawal of the import option, Canadian refiners have since 1973 re-established their control over both

the gasoline and heating oil markets, especially in Quebec and Ontario. In gasoline marketing, the majors have succeeded in gaining control, partially by further reducing the independents' market share from 1973 levels, but more significantly by forcing them to accept the price structure established by the majors.

The independents have been eliminated as effective competitors by their dependence on domestic refiners for supply and the squeeze they have experienced since 1973 as refiners charged increasingly higher wholesale prices for gasoline while keeping retail prices at low levels. One of the vehicles the majors used to discipline the independents at the retail level in the early 1970s was the second brand system. The way in which this system was used to squeeze the independents is illustrated by the margins shown in Table 16 for the independents compared to the majors' second brand outlets operated in the Toronto area between March 1973 and August 1980. Out of these margins, shown in Table 16, an independent firm must pay transport, wholesale, and retailing costs.

The majors' second brand stations have generally undercut the independents since 1973. More important, the margins that the majors' second brand stations were taking were substantially lower than the margin that Imperial itself said was necessary to cover the average costs of its primary second brand network. While these costs, when measured on a cents per gallon basis, are sensitive to volume of gasoline sold, Imperial estimated that the average cost of operating an ECONO second brand outlet in December 1975 totalled 13.2 cents per gallon—7 cents per gallon retail cost and 6.2 cents per gallon wholesale cost.<sup>5</sup> In this period the margins for the majors' second brand stations have ranged from 8.2¢ to 8.4¢ per gallon.

Other evidence is available to illustrate the nature of the squeeze employed in southern Ontario. On April 11, 1978, an independent operator surveyed the price at two GAIN outlets one ECONO, and one Suny's station in south-western Ontario.<sup>7</sup> Gain and Econo were Imperial second brand outlets while Suny's was used by Imperial under a complex consignment arrangement to price at the low end of the market.<sup>8</sup> Though Imperial Oil controlled the retail prices at all four stations, prices ranged from 77.9 to 82.9 cents per gallon. If Imperial's operating costs are taken as 11.9 cents and trucking costs to be 1 cent per gallon (both conservative in comparison to the Imperial estimate quoted above), Imperial Oil's implicit net prices to these outlets work out to be 65, 69, and 70 cents per gallon, respectively. Toronto refinery prices on sales to independents at the time were reported to be between 75 and 76 cents per gallon. The squeeze on the independents' margin is clear: an independent buying at 75 cents per gallon was paying anywhere between 5 and 10 cents per gallon more for his gasoline than the transfer price being paid by Imperial's second brand stations.



TABLE 16

GROSS MARGINS, FULL-SERVICE INDEPENDENT AND SECOND BRAND  
GASOLINE RETAILERS, TORONTO, 1973-80  
(¢/gallon)

	<i>Wholesale Price*</i>	<i>Independent</i>	<i>Major Second Brand</i>
<i>1973</i>			
March	35.7	8.6	6.9
July	41.8	6.2	5.7
October	44.5	5.0	5.6
<i>1974</i>			
January	45.0	7.2	6.3
June	53.8	7.8	6.7
November	52.5	8.4	7.6
<i>1975</i>			
July	61.5	8.7	8.8
September	61.5	8.2	8.2
<i>1976</i>			
February	65.3	9.5	8.4
June	66.0	7.8	6.5
October	70.5	7.0	6.2
<i>1977</i>			
January	69.5	9.2	7.8
May	72.0	10.0	8.3
October	74.7	10.1	8.4
December	74.0	10.2	8.0
<i>1978</i>			
February	73.0	10.5	7.9
June	76.0	10.6	8.9
December	78.2	12.0	11.5
<i>1979</i>			
April	82.0	9.3	9.0
August	85.2	11.8	11.5
October	90.0	12.9	12.5
December	72.7	13.1	12.0
<i>1980</i>			
April	99.2	11.7	10.4
August	102.8	10.4	9.5

\*Provincial and federal taxes are added to the wholesale price, but no provision is made for transportation costs. A senior Imperial official claims they average 2 cents per gallon in the Toronto area.<sup>6</sup>

Source: Wholesale prices — *Oil Buyers' Guide* (various issues); retail prices — Energy, Mines and Resources Canada.

To be an economic price-competitive operation, independents must be able to pump a sufficient volume of gasoline to cover their operating expenses. When an independent's sales volume is low, he can only survive in the long run

by raising his prices to earn sufficient revenue to recover his fixed operating costs. Two types of operating costs can be distinguished: occupancy costs, which include general maintenance and upkeep of the stations's facilities, and pumping costs, which include the expenses of hiring employees to operate the station. Both types are essentially fixed costs that will be incurred whether volumes pumped are high or low.<sup>9</sup> According to Gulf, in 1973 retail operating costs at a full service gas bar totalled 11 cents per gallon when pumping 400,000 gallons per year and 7.2 cents per gallon when pumping 800,000 gallons per year.<sup>10</sup>

Evidence from the early 1970s shows that second brands were meant to draw volume away from the independents and eventually to permit a price increase. With the type of relationship between costs per unit sold and volume described above, the majors by pricing their second brands with the independents would have succeeded in a "twofold" squeeze. First, the difference between retail prices and wholesale product costs was reduced; second, the independents' unit retail costs would have increased as their volume per station declined. Pressure from both these sources eventually caused the independent sector to acquiesce in accepting the majors lead to increase prices.

With control established, the majors have recently been able to increase their retail margins, confident that the independent gasoline resellers would raise their prices as well. A sharp rise has occurred since 1978 in the marketing margins earned by the majors at both their full-service and self-serve outlets. Data for the southern Ontario market show that those independent resellers who are still operating have moved their margins up as well.<sup>11</sup> In February 1978 the difference between the retail price for the average branded station in Toronto and refinery wholesale prices available to the independents was 14.2 cents per gallon. This average rose to 15.2 cents per gallon in June and jumped to 18 cents per gallon in August. By August 1980 this margin had risen to 19.0 cents per gallon. Margins at both second brand and independent outlets also increased. In August 1978, Toronto independents were able to earn a margin of 13.8 cents per gallon and the majors' second brands, 14.2 cents per gallon. The jump in the margins earned at self-serve stations during 1978, from 9.9 cents in February to 12.3 cents in June and 15.8 cents per gallon in August, is even more pronounced.

Since early August 1978, most independents, including those not on consignment, have faithfully followed the price structure established by the majors. For example, in 1979 Shell announced an across-the-board retail price increase at stations where it controlled the retail price. Shell's price increase was accompanied by the withdrawal of all dealer assistance programs. By simultaneously raising retail prices at its company-owned-and-operated stations and removing allowances, Shell effectively communicated to all other companies that its own dealers would be forced to maintain the new higher prices. The other majors and independents quickly followed Shell's lead.<sup>12</sup>

Equally indicative of a lessening of competition has been the disappearance of the pockets of fierce competition between the majors and the independents throughout Ontario and the rest of the country. Despite a price increase in some locations of as much as 16 cents a gallon,<sup>13</sup> few independents were willing to maintain prices sufficiently below the majors to interfere with the majors' price restoration program. This increase in the price of gasoline, which was unrelated to any rise in either crude oil prices or taxes, continues today.

Alone, the margins earned at the pumps do not reflect fully the extent to which the majors have enhanced prices. The majors have shifted a large part of their improved earnings to the refinery sector (Table 17). Refinery margins surged dramatically from 6-7 cents per gallon in early 1978 to almost 17 cents per gallon in the fall of 1979.

TABLE 17

## REFINERS' GROSS MARGINS ON GASOLINE, EASTERN CANADA, 1978-79

	1978	1979 (Cents per gallons)	Increase
February	5.7	10.4	4.1
April	5.5	11.6	6.1
June	6.0	12.8	6.8
August	6.9	14.6	7.7
October	8.5	16.6	8.1

Source: Gardiner Watson Limited, *The Canadian Refining and Marketing Scene: Gross Margin Analysis* (Toronto, 1979), p. 7.

The decline in alternative sources of supply for the independents and the squeeze they experienced has changed the potential influence this sector can exert on the competitive process. Faced with these changed circumstances, an independent can choose one of several options: he can go out of business; he can endeavour to become a consignment agent for a major oil company; he can continue as an independent entity but follow prices upwards; or he can set a price below the majors and continue to act as a competitive force. Exact measures of the reduced effectiveness of the independents are not currently available. Precise information concerning current changes in the distribution network is being sought, and additional materials will be submitted to the Commission during the course of this inquiry.

A great deal is known, however, about the fate of numerous individual resellers. For instance, Rosen in the Kingston area disappeared as a regional gas station chain. Others, such as Suny's and Top Value, increased sales by



becoming agents for Imperial Oil. Perrette Dairies Ltd., in trying to add a network of self-serve stations to its large convenience store chain, was faced with serious supply problems that forced up costs and reduced available volumes. Consequently, Perrette was forced to charge as high or higher prices than surrounding stations.<sup>14</sup>

Unfortunately, the public sources of data are insufficient to document definitively the precise extent of the decline of the independent reseller. There are enough data, however, to describe in broad terms what has happened recently in the marketplace.

The decline of the independents' share of gasoline sales in the Montreal and Toronto market that began in 1971 continued until 1978. According to Statistics Canada, between 1974 and 1978, the share of the total volume of gasoline sold through non-refiner controlled outlets fell from 12 percent to 10 percent in Toronto and from 11 percent to 8 percent in Montreal.<sup>15</sup> Further data from Energy, Mines and Resources Canada show that the share of retail outlets operated by independent resellers in fifteen Canadian cities has remained almost unchanged between 1973 and 1980. The stability in the share of outlets operated by independents does not reflect the extent to which a number of such stations are being operated on behalf of a major oil company by an independent reseller. Since the pump price of a consignee is controlled by the major supplying such a firm, the consignee is removed as an independent competitive influence in the market.

The constant market share, measured by the number of retail outlets, misrepresents the true significance of the decline of the independents because the mix of the retail outlet types has been changing rapidly, as has the total number of retail outlets. For instance, in Toronto, the number of retail outlets fell by 26.5 percent between 1973 and 1980. More important, about 25 percent of the outlets operating in 1980 are major and regional major self-serve outlets. Few such outlets existed in 1973. In 1980 33 percent of the majors' retail stations in the fifteen largest urban areas in Canada were self-serves. By contrast, only 20 percent of the resellers stations were self-serves.

The gasoline market is not the only market to experience a lessening of competition. Since 1975, with the elimination of imported heating oil as a reasonably priced source of supply, the complaints of independent resellers in Quebec have multiplied. These complaints, which demonstrate the vulnerability of the independents, fall into three categories.

First, the Director has received complaints that the major companies sell to commercial or institutional customers at discount prices and such discounts are not available to independent distributors, even though the latter purchase in much larger volumes than the former and pick up the product directly at the refinery. As a result, the independents allege the major companies are shutting them out of the institutional market by denying them the right

to sell at a price, net of transportation costs, at which the majors offer the product to the end users. In addition, the independents claim end users are often quoted a fixed discount for the entire season whereas virtually no independents are given such guarantees.

Second, the Director has received complaints that the major companies control the profit margins of the independent distributors in the residential market through discounting retail prices without changing wholesale prices; increasing the wholesale price without changing the retail price; and reducing the flexible discounts on wholesale prices without changing the retail price. This is by far the most widespread complaint from the independents and stems from the fact that the major companies are both their suppliers and their competitors in the residential market.

Third, the Director has received complaints that the majors have reduced their supplies to independents below traditionally supplied volumes.

Some specific examples based upon information provided to the Director by independent fuel oil distributors give additional insight into the independents' problems. On March 2, 1977, PEBEC Inc., a large buying group of some eighty independent distributors, bought product from Imperial Oil at 37.9 cents per gallon. At about the same time, Imperial bid 36.9 cents per gallon for a 100,000 gallon contract with l'hôpital Legardeur in de Repentigny, thereby winning away a client of Venne & Laurin, a local independent distributor.<sup>16</sup> In the spring of 1978, Imperial bid 42.7 cents to win a contract for 800,000 gallons from a client previously serviced by Louis Drouin Inc., a distributor in St. Georges de Beauce. Louis Drouin was paying his supplier 43 cents per gallon. To hold his customer he would have had to absorb all the transport, delivery, and billing costs in addition to paying .3 cents a gallon more for his supplies than his gross receipts on the sale.

In June 1976, Texaco charged the Quebec government 30.1 cents per gallon for 801,000 gallons delivered to forty-four different locations. Meanwhile Texaco was charging PEBEC 29.8 cents per gallon for 4 million gallons to be picked up by PEBEC members at the Texaco refinery. It is not possible to deliver heating oil at a cost of .3 cents or less per gallon. Again, in September 1978, Texaco bid 44.8 cents in order to deliver to the City of Montreal 300,000 gallons while charging Caloil, a terminal operator and distributor, 44 cents per gallon for larger volumes that Caloil was required to pick up at Texaco's refinery. In 1975 and 1976, Caloil still sold about 5 million gallons annually in the commercial and institutional market. In recent years, Caloil has been virtually eliminated from this market, selling only 2.7 million gallons in 1977. In 1978 the company lost a further 1.3 million gallons to other suppliers.

Beginning in the summer of 1976, the majors, led by Imperial, began to offer about 3 cents per gallon discounts to residential consumers in Quebec and eastern Ontario, while maintaining wholesale prices to the independents.

The independents were forced to absorb a large part of this 3 cent margin in order to hold their customers. In mid-winter, the majors reduced their discounts but they raised wholesale prices, thereby extending the 3 cent pressure on margins available to independents. During the 1978-79 heating season, the majors increased the wholesale price to independents by between 5 and 7.8 cents per gallon, while the price on direct sales to consumers rose only between 1 and 1.5 cents per gallon.

During the winter of 1979, some majors put independent resellers on quotas, cutting back the volumes the independents were permitted to pick up. Yet, at the same time, there were instances when the majors continued to discount sales to end users. For example, in February 1979, Petrofina, while imposing quotas on three independent distributors — Ravenda Inc., Venne & Laurin, and J.A. Bellemare Ltée — sold 1 million gallons to the Jérôme le Royer school in Saint-Léonard at a discount price. During the summer of 1980, Imperial Oil advised all of its reseller clients that volumes available to them would be reduced to 95 percent of their purchases during the previous winter season. Although a 5 percent reduction may seem unimportant, independent resellers claim the reduction was closer to 15 percent than 5 percent because the 1979-80 winter season, which was being used as the base for 1981 purchases, was unusually warm and they lifted less product from Imperial than in former years.

Of particular concern to the independents has been the majors' continuing policy to offer firm discounts for the season to groups of residential consumers even though the billing and the delivery is handled on an individual household basis. To the independents, it seems the majors have not been satisfied with removing them from the commercial and institutional markets, but that they are also intent on squeezing the resellers out of the consumer market.

### *Conclusion*

This submission demonstrates that a consistent pattern of predatory behaviour has been followed by the dominant firms in the petroleum industry over the last two decades. At various times, these firms have employed different programs to discipline a lower cost, more price-competitive independent sector in the gasoline and heating oil markets. These actions were successful in restricting the influence of the group of price-competitive marketers and in maintaining prices at levels that were higher than they needed to have been.

Starting in the early 1970s, Imperial and Shell devised a new strategy of using "fighting" second brand stations along with self-serves to contain or to eliminate the price-competitive sector in the gasoline market. The summary of the marketing sector contained in this study outlines the evolution of this policy. The history of the post-1973 period indicates its apparent effectiveness. It is



evident that the majors have contained the independents and that they are currently in a stronger position vis-à-vis the independents than at any time since 1958. At full service stations and at self-serves, profit margins have been pushed up to the extremely high levels obtained before the start of the latest disciplinary episode.

Admittedly, the marketing sector has changed somewhat in the last seven years. A certain amount of rationalization has taken place, cost levels have increased through inflation, and real unit costs per station have decreased because of higher sales volumes. Whether these changes justify the price level that exists today is not the issue. Cost-based pricing exercises grounded in current facts have difficulty separating short-run aberrations from long-run trends. The issue that requires examination is the extent of the present monopolistic situation, for monopolistic practices have been used over the past twenty years in a way that has been contrary to the public interest. The industry has demonstrated its ability to reduce competition. Over the last seven years the majors have employed the same disciplinary practices to enhance their monopolistic position.

When margins were high in the late 1960s, many independent gasoline resellers were able to enter the market. Now, however, unless the rules of the game are changed fundamentally by government, there is little likelihood that independent resellers will be able to offer effective competition to the major oil companies. The conditions allowing private brand gasoline independents to exercise a competitive price influence do not exist because of their present state of dependence upon the majors for supply. In addition, the majors have developed a system of self-serves and second brands that are distributed in a way that enables them to signal to any prospective entrant or existing firm contemplating expansion that reduced prices — whether or not they are based on higher efficiency — will be matched or bettered.<sup>17</sup>

Despite the growing influence of government in the petroleum industry there is no indication that the majors, left to themselves, will not abuse their dominant position. In recent years competition has been reduced rather than strengthened. The next section of this submission identifies the issues that are raised by this inquiry and outlines a wide range of remedies to improve competition in the Canadian petroleum industry that the Commission may wish to consider.

## NOTES

1. Energy, Mines and Resources Canada, *The National Energy Program* (1980), p. 100.
2. For an analysis and description of the U.S. program see Kenneth J. Arrow and Joseph P. Kalt, *Petroleum Price Regulation* (Washington, D.C., 1979).
3. The current tariff rates on gasoline—tariff item 269011—are 3/4, 1, and 2 cents per gallon, respectively for BPT, MFN and general tariff, whereas on heating oil—tariff item 26907-1—they are 1/3 and 1 cent per gallon. Heating oil and gasoline were admitted free between 1974 and 1979 when the tariffs were replaced by a differential of \$1.50 less per barrel compensation paid on a barrel of products compared with a barrel of refined crude. This amount is equivalent to a tariff of 4.3 cents per gallon, considerably higher than the usual tariff structure. In 1980 the import compensation differential was removed and the old tariff schedule reinstated.
4. In 1979, partly in response to complaints from the terminal operators and other petroleum product resellers, the differential in the Import Compensation Program was eliminated. It is still too soon to evaluate the impact of the removal of this particular barrier to imports.
5. Imperial Oil Limited, *Submission to the Ontario Royal Commission on Petroleum Products Pricing: Retail Issues*, March 1976, Figure 6; *Ontario Royal Commission on Petroleum Products Pricing*, Hearings Testimony, Vol. 33, p. 4662.
6. *Globe and Mail*, April 8, 1978, pp. 1-2.
7. May 9, 1978 letter from S. Douglas, President of Howden Petroleums, to the Honourable Alastair Gillespie, Minister of Energy, Mines and Resources Canada.
8. See Appendix B to the marketing volume for a description of the Imperial-Suny's arrangement.
9. Beyond some range additional employees are required and more pumps or a larger service area may be necessary.
10. Gulf Oil Canada Limited, *Submission to the Ontario Royal Commission on Petroleum Products Pricing: Gasoline Retailing (April 1976)*; *Petroleum Inquiry Document # 68129*.
11. Retail Prices; Energy, Mines and Resources Canada.
12. *Globe and Mail*, August 9, 1978.
13. *Ibid.*
14. These specific instances and others are documented in Appendices B and C to the marketing volume.
15. Statistics Canada, #45-006 and #57-002. Unfortunately Statistics Canada stopped publishing these reports in 1978.
16. This company was acquired by Les Huiles Richelieu around December 1979. Les Huiles Richelieu is 50 percent owned by Ultramar.
17. It must not be forgotten that Imperial Oil noted that it used its second brand Econo to "discipline" the market; *Petroleum Inquiry Document # 110644*.

## PART D

### ISSUES AND REMEDIES

#### 1. *Introduction*

Substantive issues involving competition policy emerge from the findings in the various sections of this submission. The single most important conclusion, as the earlier sections have emphasized, is that despite comparatively low levels of concentration at certain stages of this vertically integrated industry, competition was reduced in the petroleum industry by the use of various monopolistic practices to the detriment of the Canadian consumer.

Inquiries under section 47 of the *Combines Investigation Act* were intended to permit the Director to report on conditions and practices relating to monopolistic situations or restraint of trade.

The actions of the major petroleum companies served effectively for over two decades to constrain competition in Canada. These actions originated in the monopolistic conditions that existed worldwide during the early postwar development of the industry. Later, as competition increased elsewhere in the world, these actions contributed to the perpetuation of the monopolistic situation in Canada. Many of the actions that were designed to protect the monopolistic situation that existed in Canada were practices that restrained trade.

The provision for a general inquiry to examine monopolistic conditions and practices was meant to accomplish three objectives. First, a general inquiry was meant to provide the public with much needed information about imperfect market situations. Second, general inquiries were meant to provide the basis for improvements in competition legislation. At least since 1969, the Economic Council of Canada reported it has been widely recognized that competition legislation in Canada has needed to be substantially strengthened. In drafting section 47, legislators felt that the process of updating and reforming competition legislation would best proceed if clear examples of abuses of market power not covered by the *Combines Investigation Act* were made public. Provision for general inquiries was made so that legislators would have this information as a guide for incorporating amendments into the Act. Third, general inquiries were provided for in situations where it was felt that there were advantages to seeking alternative remedies to criminal prosecution. One alternative remedy that is frequently adopted where society is dissatisfied with the functioning of the market is direct regulation. A general inquiry is the appropriate route to follow in those areas of the economy where regulation exists but where it has not been fully effective. A general inquiry provides a forum to air the relevant issues and to encourage more effective regulation in the future.



The information provided in this submission meets all three of these objectives. First, it provides a timely and important report on the competition policy issues in a sector that dominates public policy discussions. The major concerns that have been raised in this submission include multinational pricing policies, inter-firm supply agreements, pipeline regulation, the parallel use of exclusionary practices, and the future of the independent marketing sector. Though all of these issues are potentially competition problems in other Canadian industries, they are particularly germane to the energy sector of the economy. Since energy resources have become increasingly costly over the last decade, it is all the more essential that competition be encouraged in energy supply industries so that Canadian energy policy goals can be efficiently met.

Second, the findings of the inquiry make an important contribution to the ongoing process of revising competition policy legislation. Revisions to the *Combines Investigation Act* have recently been proposed to deal with monopolization accomplished through the use of exclusionary behaviour. This submission shows that parallel policies and exclusionary practices can, over a long period, have harmful effects on the performance of an industry. This submission not only provides such evidence, it also indicates more particularly that the transfer pricing policies of multinational firms need to be explicitly considered under the *Combines Investigation Act*.

Third, this submission outlines certain problems that may best be remedied by means other than prosecution under the *Combines Investigation Act*. In some sectors of the petroleum industry, competition problems flowed equally from failures in regulation as well as from the behaviour of firms. For instance, the study of the domestic production sector demonstrates that some of the competition problems might have been avoided, had there been effective regulation of pipelines.

This submission seeks to encourage the implementation of remedies in order to restore competition. This submission is primarily devoted to describing past malfunctions in the petroleum marketplace. It is expected that this material will be further supplemented by evidence tendered during the course of public hearings before the Commission. A major issue will be whether structural remedies are required in this industry where vertical integration has enhanced the effectiveness of anti-competitive conduct engaged in at any one level of the industry. The following sections review the competitive problems in four sections of the industry; international, production, refining and marketing.

## 2. *The International Sector*

In this material the Director proposes two remedies to deal with anti-competitive behaviour disclosed in the international sector. He recommends that:

*Recommendation # 1:*

legislation be enacted to prohibit the payment of artificially high transfer prices by Canadian companies to foreign parent or affiliated companies where such practices adversely affect the Canadian consumer.

*Recommendation # 2:*

legislation be enacted to grant the appropriate authorities the necessary power to obtain information that is stored abroad by the parent or affiliated company of a Canadian company, where that information relates to activities affecting competition in Canada.

The material in this submission demonstrates that the major multinational petroleum companies selling crude oil into Canada adopted similar transfer pricing policies. The effect of these policies was to keep the prices paid by their Canadian subsidiaries for imported crude oil above the level that prevailed for arm's-length transactions in world markets. In turn, high crude transfer prices led to high Canadian product prices. The structure of the import sector of the Canadian petroleum industry was conducive to successful oligopolistic co-ordination of pricing policies for imports. This sector was dominated by a small number of firms, most of which were tied together by virtue of participation in joint ventures elsewhere in the world. These firms were able to harmonize their transfer pricing strategies, as well as certain disciplinary marketing strategies, thereby restraining competition and extracting high prices from the Canadian market.

By prohibiting the payment of non-arm's-length transfer prices, it will be more difficult for firms in the petroleum industry to extract higher than normal profits from the Canadian market. The Canadian subsidiaries of multinational petroleum companies would not likely have charged high product prices if transfer prices had been lower. These high crude costs provided a floor for their product prices in Canada. With their high crude costs, the Canadian subsidiaries were required to earn reasonable profits in order to satisfy minority shareholders and the tax authorities. This was only achievable by each firm passing high crude prices on to product users and by restricting the entry of those who imported crude or product at world prices from outside the cartel. Entry was restricted by a variety of exclusionary practices. These exclusionary practices are dealt with in subsequent sections.

While the Department of National Revenue already has the power to insist on arm's-length prices in dealings between parents and subsidiaries, there are two reasons why this is an ineffective remedy for competition policy purposes. First, the taxation problems in any industry may not demand the priority that competition problems do. Secondly, taxation authorities do not have available the corrective measures required by competition policy. Leaving sole responsibility for monitoring transfer prices with National Revenue does not solve the basic problem. If high transfer prices cause high product prices, then

retroactive assessments by National Revenue will not redress the high prices already paid by consumers. They capture for the government, through retroactive assessments, only part of the excess profits created by high transfer prices, leaving part of the excess to the multinational companies. In effect, the government becomes a beneficiary of the successful exploitation of the consumer — hardly a desirable public policy goal. A competition policy that prevents unrealistically high transfer prices should be adopted to augment the present system.

To reduce the anti-competitive effect of excessive transfer prices, the Director recommends that legislation be enacted to prohibit the payment of artificially high transfer prices by Canadian companies to foreign parent or affiliated companies where such practices adversely affect the Canadian consumer. The Director recommends that legislation to deal with this problem provide for a remedy when actions by persons carrying on business in Canada, give effect to artificially high transfer prices or similar measures imposed by persons outside the territory of Canada, where such persons outside Canada are affiliated with or otherwise control the person in Canada, and where such actions are damaging or threaten to damage the public interest.

Under this proposal the Restrictive Trade Practices Commission, a new Competition Board, a Court or some other body, on application by the Director or another aggrieved party, would be empowered to make an order prohibiting Canadian importer from purchasing product and services from its parent, or any affiliate, at prices above an arm's-length price.

The application of the recommendation to prohibit the payment of artificially high transfer prices is faced with two difficulties. One difficulty is acquiring relevant information which may be located abroad and which relates to anti-competitive activities affecting Canada. The second difficulty is obtaining jurisdiction over a foreign company. Both of these problems could be solved by recognizing the Canadian company as part of an enterprise entity comprised of all of its affiliates, therefore making those affiliates subject to Canadian jurisdiction for both the service of process and the execution of judgment. Similarly, information on activities carried out abroad by any of the affiliates could be obtained by serving an order for a return of information on the Canadian company as part of the enterprise entity. In the petroleum industry, the Canadian companies would be required to provide information on the transfer prices of their parents or affiliates.

The problems posed by anti-competitive activities outside of Canada have been recognized on a number of occasions in recent years.<sup>2</sup> As a country greatly dependent upon international trade and where many sectors of its economy are dominated by subsidiaries of multinational companies, Canada has an unusually high stake in the successful application of competition policy to



conduct wherever it takes place if it has a detrimental effect on the Canadian economy.

The two sections in the *Combines Investigation Act* allowing the Director to prevent persons in Canada giving effect to anti-competitive arrangements entered into abroad are section 31.6(b) and section 32.1. Section 31.6(b) authorizes the Restrictive Trade Practices Commission to order a person in Canada not to implement policies communicated from abroad by a person normally in a position to direct or influence the Canadian person or company, when such directions are for the purpose of implementing a conspiracy made outside Canada that, if entered into in Canada, would have been in violation of section 32. Section 32.1 makes it a criminal offence for any person in Canada to implement a directive of the nature described in section 31.6, whether or not the Canadian agent of the multinational conspirator has knowledge of the agreement. The remedies discussed above all suffer from a common deficiency in that enforcement is restricted because the necessary information as to anti-competitive practices is unavailable.

### 3. *The Production and Pipeline Sector*

The Director in this material proposes three remedies. He recommends that:

#### *Recommendation # 3:*

All petroleum pipelines under federal jurisdiction be actively regulated,

- (a) to ensure that anyone seeking to ship special or batched streams of crude oil receive non-discriminatory access to the pipelines, and
- (b) in a fashion that ensures that communications between crude oil shippers regarding pipeline operations are reduced to a minimum.

#### *Recommendation # 4:*

legislation be enacted requiring all major integrated oil companies to divest their holdings in all existing pipelines which are subject to federal jurisdiction, and that no major oil company be permitted to acquire a controlling interest in any new such pipeline.

#### *Recommendation # 5:*

The Alberta Petroleum Marketing Commission modify its limitation on the number of eligible purchasers of crude oil.

Shortcomings in the regulatory process governing the pipeline sector played a key role in restraining competition in the production sector and

indirectly also affected competition in the refining sector. The procedures that jointly set prices of various grades of crude oil were adopted at the pipeline level. The pipeline sector also served to allow the majors to undertake broader anti-competitive functions.

Pipeline companies were used to convey information between shipping companies. They sometimes restricted production in the absence of any formal authority from a provincial regulatory agency. In addition, pipeline tariff rates were adopted which discriminated between different producing areas in order to reduce competition in certain markets. Pipeline tariffs also had the effect of creating barriers to entry into the refining sector by discriminating against certain shippers. Finally, control over the main pipeline to Ontario by Imperial contributed to that company's dominant position and strengthened its leadership role in the price-fixing mechanism.

These problems arose because of the lack of regulation in the crude oil pipeline sector. It was not until the 1970's that the National Energy Board began to regulate the rate of return to oil pipelines. Recent decisions by the Board offer the possibility that abuses arising from excessive rates of return will at least be prevented. But the other problems outlined in this submission have not been formally addressed by the National Energy Board. In particular, access to pipelines for special streams and the pricing structure for facilities required to accommodate these streams should be carefully considered. Restricted access to special streams was an important device to support the unrealistic price structure adopted by the industry.

To focus on pipeline tariffs alone ignores the significant role pipeline companies have played in co-ordinating refiners' policies. For instance, materials in Volume IV show that Imperial Oil was sometimes granted access to (detailed) information about other refiners shipping plans, and requests by others to ship a special stream were often referred by Inter-Provincial Pipe Line to Imperial. In addition, shippers' meetings discussed broader policy and at some of these meetings the companies arranged reduction in heavy oil production, while at others they succeeded in implementing a scheme to head off the outbreak of price competition in the condensate market which the majors thought might, if left uncontrolled, lead to lower crude oil prices. Regulation should, therefore, aim at reducing to a minimum the flow of inter-shipper communication which can be achieved by the regulatory agency ensuring that the pipeline company will communicate with each shipper individually and will retain the information so supplied in confidence.

While improved regulation of the pipeline sector will help to counter many of the abuses that created the monopolistic situation in the production sector, divestiture by the majors of their pipeline interests will be required.

Divestiture of ownership by major companies will eliminate the refiners competitive advantage enjoyed in transportation charges by excessive dividend rebates from equity interests in pipelines. Following divestiture, each major would have an incentive to encourage, rather than to oppose, the regulatory board's attempts to make sure pipeline tariff rates do not discriminate between shippers and will not be excessively high.

Eliminating the majors' ownership in a pipeline will also reduce the majors' "first purchase control". Pipeline ownership facilitated first purchase control because shippers dealt with companies that could guarantee pipeline access.

In today's environment, removing the majors' pipeline ownership will not overcome all of the problems. With the advent of increased government intervention in the petroleum industry, complaints have been received by the Director indicating that a number of competition problems remain. The concentrated control over the purchase of crude oil, which has been shown to have contributed to the industry's ability to co-ordinate inter-firm behaviour downstream in refining, has not only been sanctioned but is now enforced by the Alberta government via the Alberta Petroleum Marketing Commission. In the past, crude control erected a barrier to entry in refining, thereby solidifying the majors control of this sector. At present, the lack of free access to Canadian crude remains a problem because of changes in the regulatory situation governing this phase of the industry.

Through the enactment of *The Petroleum Marketing Act* in 1973, the government of Alberta established the Alberta Petroleum Marketing Commission and granted this agency the exclusive power to determine the purchasers of conventional crude oil produced from Alberta Crown lands. The Alberta Petroleum Marketing Commission, in order to ensure that Alberta crude oil is used efficiently, has designated a limited number of companies as purchasers. Since this action has amounted to an entry barrier for some firms seeking to obtain crude oil, consideration should be given to the way in which the government of Alberta might attain its objectives in marketing crude oil without dispensing with the benefits that free competition provides.

#### 4. *The Refining Sector*

The Director in this material proposes two remedies. He recommends that:

##### *Recommendation # 6:*

legislation be enacted requiring that all refiners operating in Canada obtain approval of the National Energy Board for all refinery supply agreements affecting inter-pro-



vincial and international trade and exchange. Before approving such agreements the Board must consult with the Minister of Consumer and Corporate Affairs as to the likely effect the agreements may have on competition.

*Recommendation # 7:*

legislation be enacted to expand section 31.2 of the *Combines Investigation Act* to provide for the issuance of interim orders for supply, at usual trade terms, pending final disposition of an application for an order to supply pursuant to section 31.2.

The findings of this submission regarding the refining sector of the petroleum industry demonstrate how bilateral supply agreements at the refining level linked the interests of Canadian refineries and reduced competition in marketing. Some policies, by restricting or denying product supplies to price-competitive resellers, were designed to reduce competition in marketing. Other policies, like the supply agreements, indirectly restricted competition downstream because they facilitated co-operative behaviour by the refiners. The monopolistic conditions in the refining sector warrant attention primarily because they facilitated the parallel disciplinary practices that were employed by the majors in the marketing sector.

The monopolistic conditions in this sector arose from the widespread use of reciprocity agreements. The material contained in this submission demonstrates the role these type of agreements played in sustaining the mutual forbearance of the majors and in reducing competition. The arrangements by the major Canadian refiners were a form of reciprocity agreement. Products were supplied by one refiner to another, usually in exchange for a reciprocal arrangement to supply elsewhere. Thus, refining companies became dependent upon one another and developed close working relationships in order to facilitate the flow of products from one company to another. Each refiner relied upon the co-operation of other refiners creating an oligopolistic situation in which a strong mutual trust and understanding was developed.

The performance of the oil companies in marketing provides an example of the effect of mutual forbearance that can result from reciprocal purchasing arrangements. The volumes relating to the refining and the marketing sectors both outline the majors' avoidance of price competition when entry to marketing was not threatened and with mutually reinforcing disciplinary behaviour when outsiders tried to enter the market or price competition occurred.

The Director submits that procedures should be instituted to ensure that the benefits to refiners of rationalization or specialization agreements are shared with consumers. Inter-company supply agreements at the refinery level are, in the broadest sense, specialization agreements. Public policy should seek

to encourage such arrangements whenever there are resulting gains in efficiency; but it must also seek to reduce the harmful effects of any coincident increases in market power. It must attempt to ensure that the Canadian consumer is also a beneficiary of greater efficiency. One approach to minimizing the negative consequences of such agreements and maximizing the benefits to the consuming public would be a review of specialization and rationalization arrangements under the *Combines Investigation Act*. Another approach would be a requirement that refiners seek the approval of the regulatory authority already overseeing a large part of the petroleum industry.

The Director recommends that the National Energy Board be empowered to review all inter-refinery supply agreements that fall under federal jurisdiction and, after consultation with the Minister of Consumer and Corporate Affairs, be granted the authority to approve or disallow agreements.

The nature of the agreements used in the petroleum refining sector suggest that a regulatory approval process should be able to disallow all or part of a specialization agreement. The material contained in the volume on refining further demonstrates that the anti-competitive effects of inter-refinery agreements were generally accomplished by conditions in the agreement that were not essential to the attainment of cost economies. A review agency, such as the National Energy Board, that would oversee the approval of specialization agreements would require the right to examine all aspects of an agreement and to disallow certain sections if specialization agreements are to be prevented from unnecessarily enhancing market power.

In the longer run, the establishment of competition in the industry, or the emergence of some outside source of competition that places constraints upon the monopolistic power of domestic refiners, may reduce the need for regulation in the future. Should the Director's accompanying recommendations for divestiture in the marketing sector provide the added competitive stimulus to the industry, it may be possible to phase out direct regulation over refiner supply agreements in the petroleum industry.

Until the full range of recommendations for increased competition are implemented, independent resellers must rely on section 31.2 of the *Combines Investigation Act* as a means of obtaining petroleum product supplies from unwilling refiners. Although, this provision can be an effective tool for ensuring that certain distributors are not discriminated against by suppliers by virtue of insufficient competition, it needs improvement.

Since section 31.2 became law, in January 1976, the Commission has not made an order under this provision. In most instances the Director's intervention alone has resolved the matter. The one case to go before the

Commission because supply was not forthcoming at usual trade terms, the Perrette case, is described in Appendix C to Volume VI. Perrette's supply problem was brought to the Director's attention in July of 1979 and the Director applied to the Commission on November 2, 1979. Hearings before the Commission began on April 21, 1980 and continued until October 8, 1980, when the Director withdrew his application after he had been informed by Perrette Dairy Limited that new gasoline supplies at usual trade terms had become available. The length of time required to proceed with this case illustrates one difficulty with this section of the Act.

In the Director's opinion, the refusal to supply section is particularly useful for dealing with problems arising from dual distribution situations, where a small group of suppliers sell both to end-users as well as independent distributors. At the same time, the Director recognizes that the safeguards for suppliers included in the law are as important as the right of the distributor to have access to product. As a result, it may not be possible to accelerate the process of the Director's investigation and the Commission's review. For these reasons, section 31.2 should be expanded to permit the making of a temporary order that one or more suppliers accept the complainant as a customer, provided that the temporary order does not prejudice the rights of the parties before the Commission on the main application.

#### 5. *Exclusionary Practices in Monopolistic and Oligopolistic Industries*

To reduce the potential for firms to pursue restrictive joint-monopolization practices, the Director recommends that:

##### *Recommendation # 8:*

the *Combines Investigation Act* be amended to prohibit exclusionary practices adopted by a dominant firm, or two or more firms that are part of a group of firms that are dominant and to provide for orders to be made requiring that such firms divest certain assets.

The information contained in this submission, particularly that in the marketing volume, underlines the need for changes to be made in the *Combines Investigation Act* in order to deal with the exclusionary policies adopted either by a dominant firm in an industry or in a parallel fashion by each of a group of firms that collectively dominate a concentrated industry.

When the MacQuarrie Commission recommended in 1952 that the Director of Investigation and Research be given the power to investigate and



study all “conditions and practices” relating to “monopolistic situations or restraint of trade”, it was appreciated that general investigations into these types of situations would permit “Parliament to improve Canadian competition legislation and to adapt it to the changing requirements of the public interest”.<sup>3</sup> The MacQuarrie Commission recognized that the practice of conscious parallelism or price leadership could lead to a monopolistic situation. Both practices may permit firms in an oligopoly to adopt a common policy, thereby reducing competition without actually entering into an agreement of the kind exposing firms to the risk of conviction under the conspiracy provision of the *Combines Investigation Act*.

The evidence in this submission, when drawn together from each level of this vertically-integrated industry, illustrates the manner in which the major petroleum firms were able to adopt just such common policies and, thereby, to damage the public interest. The MacQuarrie Report defined a monopolistic situation as being, “the case where a single firm controls the supply of a commodity”<sup>4</sup> and, secondly, the situation, “where two or more firms decide to follow a common policy in respect to one or several conditions affecting the supply of a commodity and when their combined action has a decisive influence on the market”.<sup>5</sup> MacQuarrie recognized that some monopolistic situations could arise without explicit agreement between firms and could result from parallel behaviour.

The MacQuarrie Committee, “noted that the practices described in the previous section (threats, price wars) as conducive to the formation of trusts, may be used much more effectively by a firm to attain a dominant position and to establish itself as the leader in its field, which amounts to the creation of a combination”.<sup>6</sup> Thus, the Committee identified such practices as ‘conscious parallelism’, ‘price leadership’, ‘price discrimination’, ‘price wars’ and ‘threats’ as possibly damaging the public interest.

By outlining the structure, conduct and performance of the Canadian petroleum industry, this submission provides an example of the phenomenon of joint-monopolization in oligopolistic situations. The material shows the degree of co-ordination that developed in each sector and the manner in which it was achieved. It shows that the critical links between sectors of the vertically integrated industry enabled the majors to maintain the co-ordination of policies necessary to successfully undertake exclusionary practices. The extent to which the majors willingly participated in the co-ordinating mechanisms or consciously reinforced the predatory behaviour of others indicates that they knowingly assisted in the creation of a shared monopoly. Finally, by evaluating the effect of these policies, this submission provides evidence of the damaging effects upon

society that can be imposed by a group of dominant firms constituting a joint-monopoly.

(a) *Mechanisms Used to Co-ordinate Behaviour*

A pattern of co-ordinated industry behaviour emerges from the review of all levels of the petroleum industry. Whether it was in the crude oil sector, the pipeline sector, the refining sector, or the marketing sector, the major firms harmonized their decision-making to such a degree that together they should be characterized as having the "control" characteristics of a shared monopoly. The degree and type of co-ordination that was sufficient for the adoption of common policies varied from sector to sector:

- Co-ordination of behaviour and the absence of price competition was most evident at the domestic production level. In this sector, the largest firm, Imperial Oil Limited, was the price leader. Nevertheless, explicit agreement was sought by this firm and received from other industry participants about a pricing mechanism and the prices actually set for crude oil;
- In the international sector, co-ordination resulted from parent-subsidiary agreements that tied the price of crude, paid by each Canadian subsidiary to its parent, to the prices paid by Canadian subsidiaries of other multinational oil companies. It also resulted from discussions that co-ordinated crude prices for tax reasons;
- In the refining sector, an "industry-approach" to refinery supply agreements tied the interests of existing firms together and strengthened the tendency for mutually reinforcing behaviour to develop in other sectors;
- In the marketing sector, policies were harmonized through parallel behaviour. The lack of price competition among the majors, and the resulting high margins can be explained by the unification of the major marketers in refining and production. However, the reactions of the major firms to entry by new, more efficient marketers provides evidence of a type of parallel behaviour that MacQuarrie characterized as a monopolistic situation. Each of the majors individually adopted a monopolistic practice — disciplinary pricing against the more efficient, lower-cost independents — that reinforced the actions being taken by other firms and advanced their common objective. The links between the majors created a sense of mutual self-interest that led each to adopt similar exclusionary policies. Inter-firm communications among the majors were primarily used, but to confirm the general acceptance of the status quo or to warn others when disciplinary action against a non-integrated marketer was about to be employed.

While each of the sections of the submission, taken separately, illustrates monopolistic conditions or practices, the evidence taken as a whole indicates a joint-monopoly functioned in the Canadian petroleum industry. Because of the linkages between sectors, the actions of the majors in one area affected other sectors. Only by outlining the extent of this overlap can the anti-competitive effect of the majors' actions be fully delineated. Because of these linkages, the importance of anti-competitive actions in one sector, which

might otherwise have had little impact, were magnified and produced results that differed little from those expected from a single-firm monopoly.

For example, the inter-firm supply agreements developed at the refining level created an interdependence that made possible the tacit understandings about predatory or disciplinary activity adopted in the marketing sector and the co-ordination of crude pricing in the production sector. In turn, arrangements in the production sector facilitated co-ordination in refining. The pricing policy adopted in the production sector distorted the relative prices of different types of crude oil and, in this connection, an allocation procedure was used that gave control over the disposition of the various crudes to the dominant firms. This gave these firms an effective method of disciplining the refining sector and provided a degree of control that contributed to the development of co-operation at this level. Other examples of the effect of arrangements in one sector on another can be found in the section of this volume entitled “Vertical Linkages”. Thus it is indicated that oligopolistic co-ordination at one level, which otherwise might only imperfectly have controlled that sector, succeeded in controlling that sector because of co-ordination at another level.

#### (b) *Knowledge, Intent, and Design*

This submission not only lists the various mechanisms used to co-ordinate behaviour; it also details the extent to which the knowledge, intent, and design of the various firms suggest they were part of a shared monopoly. Companies tended to join in the various arrangements and co-ordinated their behaviour each with the knowledge of the mutually reinforcing actions of others and of the complementary effect that their participation in these arrangements would have. For instance, in the case of the common adoption of predatory behaviour in the marketing sector, the material shows that the industry leader — Imperial Oil Limited — generally was first to implement the disciplinary strategies that were shortly afterwards followed by the other majors. Those firms which acted as followers closely studied the actions of the leader, evaluated them as being predatory in intent and effect, and then adopted similar activities.

The marketing volume provides examples of a type of co-ordinated activity that, in light of both the knowledge and intent of the participants, can be described as the conscious adoption of common policies to limit competition. But there are also examples from other sectors of conscious attempts to make it easier to co-ordinate behaviour. As such, they equally demonstrate participation in the joint monopoly. For instance, one of the motivations behind the type of refinery exchange or processing agreements that were widely adopted was the linkage of the interests of two or more firms in such a way that independent action at the marketing level would be reduced.



An example of co-ordination accomplished through explicit agreements can be found in the method the industry used in the production sector to set the price of crude oil. Here the industry vested authority in the leading firm — Imperial Oil Limited — to set the absolute and relative prices of most crude types. Some aspects of the arrangements were explicit in that discussions about the appropriateness of the price structure occurred and there was an informal but well-understood mechanism for approval of decisions.

The common design to co-ordinate behaviour in the pricing of crude oil was also evident in other sectors. Imperial Oil was generally the leader and the other firms meshed their policies to fit with Imperial's. In marketing, the majors generally modelled their policies on those adopted by Imperial. In the case of the acquisition of offshore crude oil, the success in imposing higher than world prices upon the Canadian subsidiaries was dependent upon most of the multinationals following similar transfer pricing policies. In particular, the transfer prices paid by Imperial — the largest importer — were strictly controlled by its parent. Thus at the production, importing and marketing levels, co-ordination was achieved through the tacit acceptance of Imperial's leadership role. Both the leader and the followers understood the mutuality of their interest. Some inter-company communications enhanced the level of mutuality of understanding and this, in turn, allowed a harmonization of policies. While these communications were not numerous, the degree of interdependence was such that the adoption of similar policies by separate firms did not depend upon such explicit communication.

### (c) *Detriment*

In addition to outlining the mechanisms used to co-ordinate behaviour within and between sectors, and the intent or knowledge possessed by the firms party to the various arrangements, this submission also details the impact that the co-ordinating devices had upon industry performance. This impact is evident from both the actual conduct of the participants in the industry as well as from the performance of the various sectors.

Certain conduct outlined in these volumes provides an example of monopoly power or an attempt to entrench such power. At all the levels of this vertically integrated industry, the material submitted indicates that systematic price discrimination was practised. In the production sector, the domestic crude price structure was set so as to create a systematic distortion between the value of a given type of crude and its price — to the particular advantage of certain of the majors. Then control over the disposition of crude oil was used to damage the position of small refiners who had no access to special streams and were forced to use only the 'batched' stream. In the refining sector, the refinery owners discriminated against independent marketers. What held this entire structure together were the practices adopted in marketing. Through various

subsidy arrangements, the majors used a system of price discrimination to combat lower cost independent retailers in order to contain or to eliminate price competition from the independents. This predatory or disciplinary pricing restricted to certain key locations was used to reduce the threat of entry and to entrench the position of the majors' branded retail network.

This submission details the way in which the monopolistic practices affected industry performance. In the international sector, it is indicated that the majors kept the price of imported crude above the free market price for most of the 1960s. In turn, the high price of crude was reflected in high product prices. In that part of the country served by domestic crude oil, the petroleum industry maintained domestic crude and wholesale product prices above what they would otherwise have been. Finally, the most impressive evidence of detriment is found in the excessive margins that were maintained in both the wholesale and retail markets. Here, margins were kept at up to 100 percent above the competitive levels that would have prevailed if open competition had been allowed to operate freely.

If industries like the petroleum industry are to be dealt with effectively by the *Combines Investigation Act*, specific new legislation on conspiracy and monopoly law is required.

#### (d) *Alternative Remedies*

While a number of factors contributed to the petroleum industry's anti-competitive behaviour, the parallel adoption of exclusionary behaviour by the majors may be singled out as having had the most damaging consequences for industry performance in the petroleum industry. To the extent that entry to the industry as a full-fledged, vertically integrated firm is generally made by first developing a marketing network, then the success of disciplinary policies used in the marketing sector had detrimental effects on all sectors.

If the parallel use of disciplinary policies is to be countered, then remedies must be sought in the improvement of competition laws as they affect oligopolies — industries where there are a relatively small number of powerful firms. These industries generally do not fit the definition of a monopoly required for prosecution under the present monopoly provisions of the *Combines Investigation Act*; nor do firms in these industries necessarily communicate in a way that would lead to charges under the conspiracy provisions of the Act. Nevertheless, as this study demonstrates, significant anti-competitive consequences can result from co-ordinated actions by members of an oligopoly. The findings in this submission are pertinent to the three approaches available to remedy the type of situation that prevailed in the petroleum industry — amendments to the *Combines Investigation Act* in line with the “joint-monopolization” concept, the “conscious parallelism plus” approach to conspiracy, or the “misuse of a dominant position” by one or a group of dominant firms.

### (i) *Joint-Monopolization*

The joint-monopolization approach to competition policy concentrates on the exclusionary practices used to create, entrench, or extend a dominant position.<sup>7</sup> This submission demonstrates how widespread have been the parallel use of disciplinary policies and exclusionary behaviour in the petroleum industry.

Three of the findings in this submission are pertinent to a consideration of the joint-monopolization approach. First, Imperial's share of the retail market was small — ranging from 15 to 25 percent in the retail gasoline sector in the major central Canadian market — but this was sufficient to give Imperial the dominance needed to play an important leadership role.

Second, the findings demonstrate how damaging can be the result of exclusionary policies even though the industry continuously used these exclusionary policies and did not succeed in blocking all entry or eliminating all independents.

Third, the Director's findings indicate that, while the major marketers adopted similar exclusionary policies, they were not identical. Nonetheless, these policies were motivated by a common purpose and they succeeded in reducing competition.

### (ii) *Conscious Parallelism Plus*

An alternative to the joint-monopolization approach is the "conscious parallelism plus" approach to conspiracy.<sup>8</sup> In this approach conspiracy is inferred from the additional acts of firms besides the mutual adoption of a similar pattern of behaviour. Examples of the type of plus factors that are considered under the "conscious parallelism plus" approach fall into two categories — one reflecting conduct, the other, performance. In the conduct category, The Royal Commission on Corporate Concentration listed open price associations, parallel buying activity to support the price of a substitute product, uniform refusal to supply certain accounts, the exhortation by oligopoly members of the avoidance of price competition, and the adoption of absolutely uniform but artificial basing points in delivered price systems.<sup>9</sup> Some of these factors entail direct or indirect communications, implying that parallel activity does not necessarily occur by chance.

To this list of conduct factors, others add an analysis of market performance, and factors such as the existence of price discrimination, fixed market shares, identical sealed bids, resale price maintenance at an industry level, declining market shares of industry leaders, the amplitude and fluctuation of price changes, and the level and pattern of industry profits. In addition to many of the above points, others list such plus factors as prolonged excess capacity, the disproportionate response of price changes to cost changes, price leadership, refusal to offer discounts in the face of severe excess capacity, public



statements by the price leader about the appropriate price, exchanges of detailed price and transaction data, uniform exclusive territorial agreements, perverse price movements, and uniform licensing arrangements.

The Director's findings show that the degree of mutual dependence between the majors was such that they were able to co-ordinate their use of exclusionary policies by simply observing what others were doing and by implementing similar policies. The initiators of disciplinary actions were able to count on other majors following their policies.

### (iii) *Misuse of a Dominant Position - Predatory Pricing*

The material in the marketing volume of this submission provides strong support for the view that predation, disciplinary pricing, and other exclusionary tactics that are a "misuse of a dominant position" deserve the serious attention of competition policy authorities. In the marketing sector, the efficient, non-integrated petroleum resellers offered significant competition to the majors' distribution network, but their impact upon competition was restricted by the majors' parallel use of disciplinary or predatory pricing policies.

Predatory pricing can be controlled by defining it to be a "per se" offence for any firm, or for a dominant firm, to reduce prices below some cost based level. A 'per se' cost-based rule enforcement policy might be attractive because it specifies the offence in simple terms and gives firms apparently clear guidelines regarding what is acceptable behaviour. Unfortunately, both the specification of a cost-based rule and the cost accounting conventions that would apply are not free of ambiguity and would introduce a great deal of uncertainty.

Even if a rule could be agreed upon, the marketing volume demonstrates clearly why a simple 'per se' cost rule defining a predatory price would be an inadequate means of controlling predatory activities. The marketing volume demonstrates that the majors dropped prices to match the prices and costs of the independents, all the while offering a higher level of service because of their substantial fixed investment in brand recognition. Yet, generally, prices of the majors covered short-run average variable costs. This strategy drew customers away from the independents and disciplined them into following the higher prices of the branded networks. If competition authorities use a cost-based rule that focuses on short-run average variable costs to control predation, the majors' successful predatory activities would remain unchallenged. This finding is a particular example of the general principle that exclusionary practices extend to non-price dimensions that would escape a cost-based enforcement policy. Indeed, to focus simply on pricing conduct may invite other corporate strategies to be used to attain similar ends.

A 'per se' cost rule approach to enforcement is inadequate particularly in those industries, like the petroleum industry, in which predatory activity is rooted in the dual nature of the distribution system. A dual distribution system exists when a manufacturer or other supplier uses both its own network and independent marketers to distribute its product. In a dual distribution situation, the dominant suppliers can simultaneously raise wholesale prices and reduce the volume of product supplied to independent distributors, and avoid reducing retail prices below a specified "per se" predatory cost-price rule.

The findings show that in the petroleum industry a squeeze was imposed upon the independent distributors of gasoline and the squeeze served to restrain competition. In the early 1970s, the majors' market power at the refinery level increased markedly as offshore supply became regulated or was eliminated. On the wholesale side consequently, the majors were left in a position where they could control both the volume of product to be supplied to the independents and the wholesale price the independents paid. Not only did the major refiners use this power to push up wholesale prices to this sector, but by implementing predatory and disciplinary marketing policies — second brands, consignment, and temporary allowances — that lowered their own retail prices, the majors acted to squeeze the retail margins of the independents.

Apart from the problems of enforcing a "per se" cost-based rule, this approach provides no guidance as to how to distinguish between competitive and predatory price cutting. Even when an oligopoly is operated as a shared monopoly, price cutting may sometimes result from a member of the group attempting to increase its market share, whereas at other times price cutting may result from common attempts by the members to deter new entrants. Therefore, to focus on pricing behaviour without considering the underlying structure, conduct, and behaviour of the industry is to run the risk of contributing to oligopolistic stability instead of eliminating predation and reducing barriers to entry. To be effective, anti-predation policy should avoid protecting competitors and concentrate on stimulating competition. This requires that competition authorities carefully distinguish between rivalrous price cutting that manifests a tendency towards instability in the oligopoly and exclusionary price cutting aimed at disciplining and eliminating independent firms. Predatory and exclusionary conduct, since it is a manifestation of a structural condition, should be studied on a case-by-case approach in conjunction with an extensive analysis of industry structure and performance. Predatory conduct cannot be treated as an isolated, 'per se' offence. Predatory behaviour is an abuse of a dominant position and the complex task of investigation and analysis in this area requires a case-by-case approach. The need to formulate remedies demands that a rule-of-reason apply.

(e) *Conclusion*

Given these considerations, the Director recommends that the *Combines Investigation Act* be amended to deal explicitly with exclusionary policies adopted by a dominant firm and exclusionary policies of a parallel nature, used by a group of firms that together are dominant. The legislation must provide for both the prohibition of the exclusionary practice and the divestiture of assets when competition cannot be restored by any other means.

6. *The Marketing and Refinery Sectors — Achieving Structural Change*

The Director recommends that remedies to the specific competition problems existing today in the petroleum industry be sought in structural changes. Competition in the marketing of petroleum products would be intensified if the following recommendations were adopted:

*Recommendation # 9:*

legislation be enacted to foster competition in the marketing of petroleum products with the objective of increasing the independent reseller sector to the point where that sector markets at least one half the total gasoline and heating oil product sold in Canada, by;

- (a) requiring each existing integrated refiner of gasoline and heating oil to divest certain distribution assets or facilities in a manner which will ensure that, at the end of a five year period, the refiner is selling an equal amount of these products to independent resellers as it sells through its own remaining distribution network. For the purposes of these recommendations an independent reseller is defined as a distributor of gasoline and/or heating oil, with the following characteristics:
  - (i) the refiner does not directly or indirectly control the distributor.
  - (ii) ownership of the product is transferred to the distributor at a wholesale price that is determined independently of the retail price established by the distributor.
- (b) requiring that any new refiner shall not sell more of its heating oil and gasoline output through its own distribution network than it supplies to independent resellers.
- (c) assuring that supplies of gasoline and heating oil at non-discriminatory prices are available to independent resellers.

*Recommendation # 10:*

the government should provide financial assistance to service station dealers to acquire the divested distribution facilities of the refiners.



*Recommendation #11:*

a major responsibility of Petro-Canada should be the expansion of its refinery operations in order to act as a supplier to independent resellers, whether or not the latter sell under the Petro-Canada logo.

The detriment flowing from any monopolistic situation can be lessened by remedies designed to reduce those barriers that discourage entry by outsiders. Those barriers imposed by government, such as tariffs on imported petroleum product, are readily identifiable and, at least in principle, easily removed. It is more difficult to eliminate those barriers directed against potential entrants by dominant firms and constitute a misuse of that dominant position.

Recent proposals to amend Canadian competition legislation have included provisions — such as the monopolization (31.72) and the joint-monopolization (31.73) clauses of Bill C-13 and C-42 — that would prohibit certain exclusionary practices that are used by dominant firms to establish entry barriers. Both the Skeoch-MacDonald Report<sup>10</sup> and Bill C-42<sup>11</sup> recognized that prohibiting exclusionary behaviour may not by itself provide an adequate remedy to some monopolistic situations. Divestiture of certain assets of a firm was considered to be a necessary remedy when prohibition orders against behaviour were likely to be inadequate or unenforceable remedies.

While it may be possible in certain monopolistic situations to ascertain when behaviour is a misuse of a dominant position, this becomes more difficult in industries where an oligopoly exists. In such situations, competitive behaviour emerging from intra-oligopoly rivalry is difficult to distinguish from predatory or other exclusionary behaviour except through an exhaustive study. In circumstances where behaviour is ascertained to have been predatory, regulation of such behaviour, even if done with sufficient care and foresight to protect competition, runs the risk of making the industry less rather than more competitive. Prohibition orders aimed at regulating behaviour can become mechanisms for reducing competition. For example, in order to remedy the problem of price discrimination at the refinery level, refiners could be required to post prices and to sell to all customers only at these posted prices. This requirement may ensure that independent resellers all pay the same prices, but it also reduces incentives for refiners to cut prices and to expand sales at the expense of one another.

The problem that must concern those who would regulate exclusionary behaviour in this industry is the size of the required task if all restrictive exclusionary practices previously used by the majors are to be prevented in the future. There is such a wide range of exclusionary practices employed in the petroleum industry that a regulatory approach would result in virtual regulation of the entire industry. An alternative would involve attacking devices used to

co-ordinate anti-competitive policies rather than the exclusionary practices themselves.

The two principal facilitating mechanisms used by the petroleum industry to strengthen the cohesion of the oligopoly were co-ordination at the pipeline level and refinery level supply agreements. Both mechanisms emerge from normal business practice and can serve useful purposes. It is, therefore, unavoidable that both continue in some form. Nonetheless, there are limitations that can be placed on both pipeline operations and refinery supply agreements that should have the effect of reducing their potential use as anti-competitive devices. Earlier sections discussed improvements in the pipeline regulatory process and the regulation of specialization agreements. Implementation of these recommendations would reduce the degree to which these facilitating mechanisms can be used to co-ordinate behaviour in an anti-competitive fashion.

There are, however, cases where policies attacking exclusionary practices or the devices that facilitate anti-competitive behaviour are not sufficient and a third alternative — structural change or divestiture — may be necessary. Structural remedies, given their consequences, should, however, be undertaken only in extreme cases.

The petroleum industry in Canada is just such a case. It is a highly concentrated industry that has performed unsatisfactorily over the past few decades. In this industry, the key devices used to maintain monopoly power have not been facilitating mechanisms that might easily be eliminated. While a few, such as pipeline shippers' meetings and refinery supply agreements, might be controlled, the key devices used have been the various predatory policies each major has relied on to discipline the independents.

It will be extremely difficult to use prohibition orders successfully to eliminate price discrimination, predatory pricing, consignment sales, rental subsidies, temporary allowances and the whole range of other techniques that have been used by the majors to discipline the independents. The variety of exclusionary practices adopted by the majors in the past means it is unlikely that they can be remedied without the type of extensive regulation of the industry that would itself overwhelm the competitive process.

Furthermore, as long as the majors fully control the independent resellers' access to supplies of gasoline, it cannot be guaranteed that prohibitions or regulations would undermine the degree of solidarity that has been achieved with the past use of exclusionary policies. Structural remedies should be aimed at those areas where changes can be made that will diminish the effectiveness of exclusionary behaviour. Therefore, the adoption of structural reform is recommended.

Since exclusionary behaviour was primarily employed at the marketing level, it is recommended that the majors be required to divest themselves

partially of their marketing assets. Structural remedies should consider the technical and economic characteristics of the production process to determine whether horizontal deconcentration, would result in operational inefficiencies. An example would be the break up of Imperial Oil into four or five regionally integrated companies. It is, for example, true that the extent of economies of scale at the pipeline and refinery stages make high levels of concentration inevitable in these sectors. This is not the case, however, in the marketing sector, where small independents have often operated with lower costs than the large multinationals. Similarly, on the basis of operational efficiency, vertical integration between the trunk pipeline system and the production sector can be justified more readily than between refinery and marketing. Thus, the partial divestiture by the majors of their marketing subsidiaries and the development of separate independent marketing companies is recommended.

As important as it may be to break up the major refiners' vertical connections, divestiture alone cannot be relied upon to restore competition. Structural change will have to be accompanied by action to develop the type of downstream markets that will be truly competitive. The reason that competition is more dynamic in the United States than Canada is that independent jobbers market about one half of U.S. refined gasoline. This provides a bench-mark that can be used in devising a divestiture program in Canada. Competition policy should aim at moving the Canadian petroleum industry at least to the level of competition that exists in the United States. While some have declared the degree of competition in the U.S. petroleum industry to be unsatisfactory, it would be a major accomplishment if Canada could attain the same degree of competition.

In order to accomplish this, a policy devised to encourage the emergence of an independent jobber sector must be sought. It is recommended that a target for this sector — such as the sale of 50 percent of the gasoline and heating oil refined in Canada — should be set. Some divestiture by the majors of their own marketing facilities and a requirement to increase sales to independents should be used to move towards this target.

The Director, therefore, recommends that all refiners should be required to reduce their share of gasoline and fuel oil distribution to end user markets over a period of five years. Each refiner should steadily reduce distribution facilities through which he sells gasoline and heating oil until his remaining facilities account for no more than one half the volume of gasoline and heating oil sold by that refiner in Canada.

During the five year transition period it will be necessary to assure that supplies of petroleum products are made available to an expanding independent reseller sector. The major oil companies are not unimaginative in developing contractual means of gaining control over the pump price of gasoline retailers who are ostensibly independent businessmen. Furthermore, the major



refiners may choose, under a simple divestment order, to drop many of their dealers and to reduce refinery throughput, thereby shorting the market of gasoline and maintaining high margins at both the refinery level and at their remaining marketing outlets. To guard against this outcome, supply at non-discriminatory prices must be assured and a number of alternative avenues for accomplishing this deserve to be considered. The recent announcement that Petro-Canada will be taking over Petrofina will open up the opportunity for Petro-Canada to become an important source of supply to independents. However, even with this takeover, Petro-Canada will account for a relatively minor share of Canadian refining capacity. Unless Petro-Canada acquires additional refining capacity, direct means of supplying independent resellers may well fall short of the need.

An alternative approach is for government to use the import compensation program as a device for encouraging importation of petroleum products. In the past, when Canadian refiners were aware that independent resellers could turn to an offshore source of supply, the domestic refinery sector tended to maintain refinery throughputs and sell to independent terminal operators. A credible threat that the past bias in the compensation program will be reversed, so as in future to favour rather than discourage gasoline and heating oil imports, would be a significant means of assuring supply to the independent reseller sector.

Other recommendations pertaining to the refinery and production sector will ensure that supplies are made available to the reseller sector. For instance, if domestic crude oil is available to new buyers and access to the pipelines is open to all, then the refusal to supply provision of the *Combines Investigation Act* may be used to assure that independents can gain access to any under-utilized refinery facilities. An independent that is able to show that it has a source of crude and can deliver it to an under-utilized refinery, but has been refused a processing agreement at usual trade terms, may succeed in gaining access to such a processing arrangement under an order issued pursuant to section 31.2. It remains important, however, that interim orders be provided for under this section to avoid lengthy delays.

If interim orders are not available, the Director submits that it will be necessary to establish a mandatory supply allocation procedure by which refiners are required to set aside up to half their gasoline and heating oil production for sale to independents. As under any mandatory allocation program, it will be necessary to devise a means for establishing a maximum allowable price on such sales.

Either divestiture or the allocation scheme could harm existing licensees of the majors who are suddenly denied product. Accordingly, any recommendation must provide for a remedy that permits licensees to adjust by becoming independent resellers. In this connection, the Director recommends

that the government establish a program of financial assistance to certain dealers or associations of dealers. Those dealers wishing to acquire the assets of a major oil company or to form an independent distributing organization should be eligible for such financial assistance.

In conclusion, restoration of competition in the petroleum industry today requires more than limited remedies aimed at banning specific exclusionary practices for which alternatives may be quickly found by the majors. Earlier sections have dealt with the numerous changes required in competition legislation if all exclusionary policies are to be regulated and controlled. The likelihood of all those changes being implemented successfully is small. This is an industry that requires significant structural change rather than piecemeal enforcement directed against particular aspects of behaviour. The divestiture of certain of the marketing assets of the major refiners should be required.

### *7. Regulation and Competition*

Because of past problems arising from the application of government petroleum policy examined in this submission, and the rapidly increasing involvement of government in the petroleum and energy sectors of the Canadian economy, the Director recommends that:

#### *Recommendation # 12:*

greater attention should be given to the effect on competition of regulatory activity by government agencies. When alternative policies are available to meet government objectives, those policies which least restrict competition should be chosen. An analysis of the impact on competition of any policy should accompany all major regulatory proposals.

Elsewhere in this submission the Director has recommended the National Energy Board's regulatory powers be expanded in respect to both pipeline regulation and control over refinery supply and exchange agreements. It has also been suggested that a regulatory supply allocation mechanism may be needed to assure independent resellers access to supplies of gasoline and heating oil.

The Director has recommended that permanent regulatory authority should be limited to pipeline operations. Regulation over pipelines is unavoidable as it is inefficient to duplicate pipeline rights of way and only rarely will shippers have access to viable alternative modes of transporting crude oil. Petroleum pipelines are, therefore, natural monopolies.

The recommendations for regulating both refinery supply and exchange agreements are proposals directed at properly managing the process of reducing the major refiners' control over the distribution of gasoline and heating oil. The objective is to replace the majors' market control by government regulation that will be phased out as competition is restored.

Especially in the energy area, many economic functions usually performed within a market framework are being transferred to the public sector. Policy decisions are often taken and implemented without any opportunity for a public hearing and such decisions may often have a significant influence on the sectors of the economy still largely governed by freely functioning markets. For instance, the material in this submission demonstrates that the petroleum industry was, on occasion, able to exploit certain government policies to its own advantage. Certain aspects of the National Oil Policy and of the Import Compensation Program served to make it easier for the industry to engage in predatory activity so as to discipline the independent marketing sector. In both cases, it would have been possible to harmonize competition policy and energy policy objectives.

In future, such conflicts between energy policy and competition policy are likely to be exacerbated rather than reduced. Indeed, increasing provincial and federal government involvement in the upstream natural resource markets will make it more difficult to maintain competition in downstream markets with the instruments presently available to competition authorities. Competition authorities have focused on the need to reduce entry barriers and to eliminate facilitating mechanisms that permit tightly-knit oligopolies to co-ordinate behaviour to the detriment of competition. As long as there are no inherent entry barriers to an industry, it can be argued that the prevention of exclusionary behaviour should permit enough competition that co-ordination in even tightly-knit oligopolies will fail. However, if in the future, policies are followed in upstream natural resource or raw material sectors that make entry to that sector and thereby indirectly to the whole industry much more difficult, focusing on exclusionary behaviour downstream will not be sufficient to maintain competition.

For the foreseeable future, the rapid pace of change in the Canadian economy will continue and the role of government policy and regulation in this sector will become even larger. It is important that competition policy concerns be fully reflected within the agencies and departments developing and implementing energy policies and regulations. Accordingly it is recommended that when alternative policies are available to meet government objectives; those policies which least restrict competition should be chosen. The Director further recommends that an analysis taking into consideration the following information should accompany all major regulatory proposals:

- an assessment of the economic impact on markets affected either directly or indirectly by a proposal. Economic impact should be measured in term of industrial structure, entry barriers, efficiency, performance and innovation;
- the competition impact of each optional policy action included in the document;
- whenever possible a quantitative evaluation of the private economic costs in terms of reduced economic efficiency engendered by increasing regulation;



- an assessment of the effect of regulation of monopolies on efficiency and competition in vertically related sectors of the economy.

In conclusion, the Director believes that a competitive free market is a valuable social resource that demands careful attention at a time when government influence on the energy sector is increasing for reasons other than the maintenance of competition. This conclusion is strongly reinforced by the Director's findings that in the petroleum industry government policies have created situations that a cohesive group of firms in an oligopolistic industry was able to exploit to its own advantage and to the detriment of consumers of petroleum products.

## 8. *Conclusion*

This submission demonstrates that the petroleum industry has wasted resources and charged unnecessarily high prices to Canadian consumers. While these volumes focus on the period since 1958, competition problems have existed for a longer period. As early as 1936, the Canadian Tariff Board, in a report on the petroleum industry, described apparent inefficiencies in the distribution system.

Because of the length of time during which the monopolistic situation in the petroleum industry has developed and the variety of the restrictive practices used to entrench market power, a simple remedy is not possible. Instead, a combination of remedial actions is required.

First, certain changes are being sought in competition legislation that would prevent this type of situation from re-emerging. Second, direct government intervention into the industry is recommended that would restructure the industry and re-establish the basis for competition.

Changes in competition legislation should be directed at preventing the use of exclusionary practices. While there were a number of other devices used to enhance the monopolistic situation in the petroleum industry, the disciplinary policies used by the majors against independent marketers were indispensable monopolistic instruments without which the overall market control exhibited by the majors would likely have eroded. Priority should be given to remedies for these practices.

As important as is the need for legislative changes in competition policy, these will not restore competition to the petroleum industry at the present time. Because of changed circumstances in the conditions of supply, demand and distribution, entry by new firms cannot now be relied upon to provide or to re-establish competition. Thus, structural change is recommended. The major petroleum companies should be required to divest themselves of their gasoline and heating oil marketing networks until sales to independent marketers make up a significant portion of total sales. Petro-Canada should be used as

an avenue to provide supply to independent marketers. Although, in the short run, certain administrative actions will be required to implement this program, with the development of a viable independent sector, the market can be relied on to function without continued supervision. Competition can then be allowed to allocate resources in an efficient fashion without being restricted through the misuse of market power by the majors.

*Notes*

1. Not used.
2. See, for instance, *Restrictive Business Practices of Multinational Enterprises*, OECD, 1977, and *Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices*, United Nations General Assembly, December 5, 1980. The Royal Commission on Farm Machinery (Barber Commission) reported in 1971 that international price discrimination was employed against Canadian Farmers. (*Report of the Royal Commission on Farm Machinery*, Ottawa, 1971) Other forms of abuse of economic power include predatory pricing, discrimination against firms outside of multinational control, inter-country price discrimination, refusal to supply, and tying agreements. The *Combines Investigation Act* (section 31.7) applies to refusal to supply situations but does not deal with these other problems.
3. Report to the Minister of Justice, Committee to Study Combines Legislation (MacQuarrie Report), Ottawa, 1952, p. 44.
4. *Ibid.*, p. 23.
5. *Ibid.*, pp. 23-24.
6. *Ibid.*, p. 26.
7. See *Proposals for a New Competition Policy for Canada: Second Stage*, Consumer and Corporate Affairs Canada, March 1977. House of Commons, *Bill C-13*, Third Session, 30th Parliament, 1977.
8. *Report of the Royal Commission on Corporate Concentration* (Ottawa, 1978) pp. 96-7.
9. *Ibid.*
10. L.A. Skeoch, B. McDonald, et al, *Dynamic Change and Accountability in a Canadian Market Economy* (Ottawa, 1976).
11. *Proposals for a New Competition Policy for Canada: Second Stage*.



## **APPENDIX A**

**Extra Cost to Canadians of Petroleum Industry  
Performance, by Source: 1958-1973**



## **Extra Cost to Canadians of Petroleum Industry Performance, by Source: 1958-1973**

The monopolistic situation prevailing in the petroleum industry between 1958 and 1973 was expensive for Canadian consumers. The Director has, in this submission, identified four major sources of excess costs charged to Canadian petroleum product users during this period. Table A-1 lists these sources together with estimates of the total additional cost incurred between 1958 and 1973. The methods used to make these estimates are explained here and in the notes to tables A-2 through A-9.

The largest source of the excess charges arose from the inefficient and costly gasoline distribution system operated by the majors. The second largest source of the extra cost is attributable to the artificially high transfer prices for crude oil imports that the major oil refiners paid to their parents and subsequently passed on to their customers. Some large petroleum product users and resellers partially avoided the domestic refiners' excessively high prices by importing refined products. But this approach led to the third source of excess costs to Canadian consumers: imported products were subject to higher tariffs and transportation charges than imported crude and these expenses were passed on to consumers. Finally, Canadian refiners, especially those in Ontario, paid more for domestic crude oil than the arm's-length price of imported crude that otherwise would have been delivered to Ontario refiners.

Of the four key items for which cost estimates are presented, the inefficient gasoline distribution system and the extra cost of imported products gave rise to a real waste of resources. In contrast, the high import prices for crude oil and high prices on domestic crude reaching Ontario refiners just transferred income from Canadian consumers to producers. The beneficiaries of this transfer were in many cases the foreign shareholders of multinational oil companies.

These four sources were not the sole means by which excess revenues were generated by the industry. For instance, high pipeline rates also produced significantly higher than competitive returns to certain owners. Furthermore, there is every indication that the heating oil market was not free of inefficiencies that added to the cost of the product. However, where the immediate victims of petroleum company policies and practices were independent resellers, rather than consumers, it is difficult to place a dollar value on the effects of monopolistic policies. Certainly, many resellers were subjected to oil company disciplinary practices that were designed to maintain the majors' dominant position in the marketplace and their inefficient marketing systems. These policies imposed on many industry participants a frequent need to adjust their operations. These adjustments were costly. This cost burden fell on distributors



and may only tangentially have affected consumers who were otherwise being forced to pay prices that reflected the higher cost levels of the majors.

Table A-1 summarizes the detailed calculations of the costs associated with each of the items identified by the Director. Sources of data are presented in Tables A-2 through A-9. Those readers interested in following a detailed exposition of the analysis are referred to these tables and the notes attached. Here a brief résumé is provided so that the reader will be able to comprehend the significance of the numbers presented.

Three methods of presenting the extra cost associated with monopolistic overcharges are shown in each of three columns in Table A-1. The first column shows the cost in 1980 dollars. These figures were estimated by reindexing the GNE price deflator to a base of 100 in 1980 and converting each year's current dollar costs into 1980 dollars. (See Table A-2) For instance, though 82 million 1958 dollars were wasted in that year due to gasoline distribution inefficiency (Table A-4), the 1958 contribution to the total overcharge from this source, when expressed in 1980 dollars, is 258 million dollars. This means of representing the excess cost recognizes that a 1958 dollar bought roughly three times as many goods and services as a 1980 dollar.

The second column in Table A-1 shows the costs of the stream of overcharges paid between 1958 and 1973 in the form of the present value as of January 1, 1981. This method of summing costs incurred in different years more accurately captures the value of the loss to consumers than a simple summation of each year's overcharges calculated in 1980 dollars. The latter method, which simply sums dollars wasted each year between 1958 and 1973, is an invalid basis for measuring the total present loss imposed by past overcharges. It fails to account for the productivity of investment and treats the resources wasted in 1958 as being equivalent to those lost sixteen years later in 1973. The best way of reaching a single figure to represent the flow of losses over a series of years is to capitalize the flow at an appropriate rate of return to investment. The figures in the second column of Table A-1 were calculated by capitalizing the series of losses incurred at the annual rate of return before taxes to average shareholders' equity in the "all manufacturing" sector. (See Table A-2) For those unfamiliar with present value concepts, it may be useful to think of the figures in this column as the value, as of January 1, 1981, of a hypothetical portfolio of assets composed of sixteen individual assets, one bought each year between 1958 and 1973. The value of the hypothetical asset purchased each year is equal to the proceeds from the excess charges paid in that year by Canadian consumers of petroleum products. The annual rate of return on the portfolio of assets is taken to be the annual before tax realized rate of return to average shareholders' equity in the "all manufacturing" industry sector.

Figures in the third column of Table A-1 differ from those in the second solely because the after-tax realized rates of return to average sharehold-

ers' equity in the "all manufacturing" sector replace the before-tax rates of return in the present value calculation. This basis of reporting the present value of the excess charges to petroleum consumers presumes that all government expenditures, whether on capital investment or services, have a zero rate of return to society. Therefore this column of figures should be treated as at best an estimate of the floor to the true present value of the excess cost to petroleum users.

The rows in Table A-1 present the costs of each of the sources of overcharges borne by the Canadian consumer as well as the total cost to consumers. They are calculated as outlined in this section.

### *The Cost of the Inefficient Distribution Network*

The magnitude of the costs derived from the first source — the inefficiency arising from the monopolistic situation in the gasoline distribution industry — was calculated by multiplying the unnecessary expense per gallon of gasoline pumped through inefficient outlets by the volume of gallons sold through such outlets.

To calculate the first factor — the unnecessary expense per gallon of gasoline pumped — the competitive cost per gallon of supplying gasoline, including a reasonable rate of profit, was required. This figure was represented by the margin earned by efficient independent gasoline resellers, which was available from the detailed estimates the oil companies made of the independents' operations.

As reported in the marketing volume, the oil companies closely monitored the independents' operations and reported on the typical operating costs of two types of independent resellers in comparison with their own costs. These studies contrast the costs of those independent resellers with a service station package roughly similar to that provided by the majors themselves and with the "gas-bar" operation that only pumped gas and sometimes sacrificed appearances and services. The latter offering is an efficient means of catering to a segment of the market that did not value the extra services provided by the former. Nonetheless, because it requires too much guesswork to specify an appropriate share for the lowest cost segment of the market, only the margins of the independent resellers with an almost identical package of quality, appearance, and service are used here. This type of margin provides the norm used to assess the performance of the majors in supplying an almost identical product to the motorist. The norm is itself conservatively selected in order to err on the side of overstating the efficiency of the majors or, alternatively, to understate the waste associated with the majors' inefficient distribution system. This is because the resellers' costs per gallon decreased as the volume of gasoline sold through each outlet increased. However, the majors' disciplinary pricing policies served to contract the resellers' volumes. This in turn would have increased the independents' cost per gallon sold.

These considerations should be kept in mind when looking at the differentials in Table A-3. These differentials, which were all calculated by analysts from major oil companies, show that independents operated on margins from 3.5 to 12.5¢ per gallon below the majors. The figure of 6¢ per gallon is chosen as the measure of excess distribution costs and provides a conservative estimate of the excessive charges.

There are several reasons why 6¢ is a conservative estimate. First, the Gulf study, from which differentials can be calculated for the years 1958 through 1968, indicates the differential was closer to 10¢ than 6¢. Second, while Shell's estimate is 6.6¢ in the early 1960s, it rises to 11.3¢ in the early 1970s. In addition, Shell's estimates some of its own cost items in the early 1960s are below the estimates made by various provincial Commissions.<sup>1</sup> In making their estimates, these Commissions used data supplied by all of the major oil companies. From these other sources of data, it appears that either Shell underestimated its own costs by between 2.1 and 4.3¢ per gallon, or Shell had a considerably more efficient distribution network than the other refiners.

Third, six of the ten company studies used in preparing Table A-3 were Imperial Oil Limited studies and were based on Imperial Oil's service station network. Among all the refiners' distribution networks, Imperial's network was one of the more efficient — at least in terms of average volume sold per station.<sup>2</sup> Therefore costs per gallon sold for the other companies should have been even higher than Imperial's.

Thus the 6¢ estimate is on the low side and an estimate of between 8¢ and 11¢ could have been used. Nonetheless, it is clear that it is impossible to claim perfect precision for any cost estimates, whether based on average costs or estimated from net revenues earned. For this reason, it should be kept in mind that for each 1¢ the majors' costs were above the independents, the present value cost to consumers rises by 5.72 billion dollars. If the margin is assumed to be 4¢, then the present value cost to consumers declines from 34.3 billion to 22.86 billion dollars. If the differential is assumed to be 8¢ per gallon, the present value cost rises to 45.72 billion dollars.

In order to calculate the costs to the consumer of the majors' inefficient branded networks, an estimate of the share of gasoline sales that was accounted for by this network is also required. One estimate can be derived from the provincial Royal Commissions that studied the extent of overbuilding

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1. *Royal Commission on the Price Structure of Gasoline and Diesel Oil in Nova Scotia*, 1968; *Gasoline Marketing in the Context of the Oil Industry*, Alberta, 1968; *Royal Commission on Gasoline Price Structure*, British Columbia, 1966.

2. Petroleum Inquiry Document # 9632 (BP Canada).



in the retail gasoline sector and concluded that between 40 percent and 70 percent of the service stations in Canada were redundant.<sup>1</sup> However, a summary statistic of this kind fails to distinguish adequately between types of service stations and thereby tends to attribute inefficiency to all stations pumping low volumes. Not all of the majors' distribution system can be classified as having been inefficient simply because of the low average volumes pumped per station. Part of their networks, for instance, were located in rural areas where the dispersion of service stations was related as much to the local requirements for repairs and other garage services as to the retailing of gasoline. Furthermore, in some areas, the distance to high volume stations charging lower prices may have been too far to attract local customers who turned to a higher priced outlet.

As no accurate statistics are available on the extent to which low volume, high priced stations may have been an optimal station type in certain localities, the approach adopted here is to allow that 30 percent of all gasoline sold in Canada was pumped through such efficient even though low volume stations. By virtue of the fact that these low volume outlets pump as little as one-tenth and rarely more than one-third of an average urban station, this analysis somewhat arbitrarily attributes efficiency to far more than half and, consequently, inefficiency to far less than half the service stations in the country. By contrast with provincial royal commissions estimates, this submission is underestimating the added costs attributable to the majors' inefficient service station networks.

In addition to the 30 percent of the gallonage assumed to have been sold through "efficient" low volume stations, it is also assumed that a further 20 percent was sold by efficient independents and the majors' second brand outlets. This 20 percent estimate is also an arbitrary overstatement of the efficient segment of the industry that leads to an underestimate of the wastefulness of the system. At no time between 1958 and 1973 did the combined market share of independents and major second-brand outlets rise to 20 percent of the entire Canadian market. Not only did market shares of this component of the industry not reach 20 percent of the national market, the second-brand stations of the majors rarely attained full efficiency and profitability during this period. As is documented in the marketing volume, the second-brand stations were designed to and did syphon volume from the independents, thereby diminishing both groups' level of efficiency.

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1. See *Report on Matters Concerning Gasoline Marketing in British Columbia*, British Columbia Energy Commission, December 1975, p. 49; British Columbia (1966, p. 37); Alberta (1968, p. 347); *Report and Recommendations on Gasoline Marketing*, Prepared for the Nova Scotia Board of Commissioners of Public Utilities by Dalhousie University, 1976, p. 14. The Ontario *Royal Commission on Petroleum Products Pricing* (1976) refers to service station overbuilding but does not quantify it. (Chapter 4)

Using both these estimates provides an estimated cost to consumers of 34 billion dollars (calculated as present value using before tax rate of return), arising from the inefficiency in the gasoline distribution network.

### *The Cost of Higher than Arm's-Length Crude Prices*

Estimates of overcharges on crude oil imports that were passed on to consumers in the form of higher petroleum product prices are presented in row 2 of Table A-1.

The level of petroleum product prices established by domestic refiners was affected by two factors that are consistent with the existence of a monopolistic situation. The first is that actual refinery margins were sometimes above competitive refining margins that might have applied in the absence of a monopolistic situation. The second is the premium transfer price the majors paid for imported crude oil. The evidence in Volume III substantiates directly that the major oil companies sometimes paid more than \$1 per barrel, or 63 percent above the then generally applicable arm's-length price.

Direct evidence on the competitive refinery margins that might have applied in the absence of a monopolistic situation in Canada is scant, but there is indirect evidence that refining margins may have been excessively high. To the extent a monopolistic overcharge existed at the refinery level, the enhanced price of crude oil imports was not simply passed on to consumers but was actually inflated still further as products moved to market. The evidence of this additional cost factor is reviewed below, though the burden to consumers from this source is not estimated and is omitted from Table A-1. Thus figures in row 2 of Table A-1 reflect the extra cost to Canadian consumers, assuming only that the refiners passed on to product users the difference between arm's-length crude oil prices and actual crude oil prices paid by the majors to their parents. Once again this means that the estimates of the costs to Canadian consumers of the monopolistic situation in the Canadian petroleum industry are conservative.

The total excess cost to Canadian consumers as a result of the import transfer pricing policies of the majors was found by estimating a yearly average excess transfer price per barrel of crude oil imported. Multiplying each year's volume of imported crude oil by the estimate of the excess transfer price for that year gives an estimate of the annual cost to consumers of petroleum products. As before, these are transformed to present value estimates using both before- and after-tax estimates of the rate of return to the "all manufacturing" industry sector.

The calculations used to find the average yearly excess transfer price are set out in Table A-5. In this table each of the majors importing crude oil into Quebec, for which the actual import prices are known, is listed. The average annual excess price of each major is weighted by that firm's share of total crude oil imports into Quebec. In order to provide a conservative estimate

of the cost to Canadian consumers, information is provided for the four national majors only and one regional major. Other importers are assumed to have paid a zero excess price for crude oil.

The data from which excess transfer prices have been calculated is given in Tables 29 and 34 in Volume III. The arm's-length world market price of Venezuelan crude oil, as estimated by Sun Oil Limited, is the basis for calculating the excess prices paid for crude oil by the major Canadian refiners. The Sun Limited series is complete for the 1962-70 period. For the 1971-73 period, the excess transfer price is set at zero, despite the evidence in Volume III that transfer prices were raised in step with arm's-length prices in this period and, therefore, remained above arm's-length values. For the earlier period, 1958 to 1961, the excess transfer price of each company is set at the 1962 level.

Between 1958 and 1961, the difference between the prices being paid by the major importers and arm's-length prices can be taken as even higher than the estimates presented here for 1962. One basis for this conclusion is that Adelman's estimates of "implicit" third-party prices (Table 32, Volume III) are lower in 1960 and 1961 than 1962. Since the majors' crude prices for these years were higher than for 1962, the excess margins they paid may also be inferred to have been higher than 1962.

Similarly, the excess in 1958 and 1959 would have been just as large, if not larger, than in 1963, and 1963 figures are unchanged from 1962. Between 1958 and 1963, an estimate of the downward trend in arm's-length prices of Light Iranian type crude shows a decline of 41 cents per barrel;<sup>1</sup> between 1959 and 1963, 18 cents per barrel.<sup>2</sup> If the fall in freight rates from the Persian Gulf to eastern North America is added,<sup>3</sup> the fall in c.i.f. arm's-length costs would have been 61 cents and 18 cents per barrel, respectively, for these two periods.

Comparisons of changes in Imperial's and Texaco's crude costs to these trends are made in Table A-6. These show that the decline in the costs of these two importers between 1958 and 1963 and 1959 and 1963 was either about the same or higher than the downward trend in arm's-length prices. This implies that the excess being paid in 1958 and 1959 was at least as large, and possibly greater, than in 1963. Since prices of the major importers were tied directly or indirectly one to another during this period (see Volume III), these results may reasonably be extended to the other firms in the market.

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1. U.S. Senate, *The Petroleum Industry*, Hearings before the Subcommittee on Antitrust and Monopoly, 91st Congress, 1st session, 1969, Vol. I, p. 59.

2. *Ibid.*

3. *Ibid.*, p. 68.



Thus by assuming the excess price being paid for the period 1958 to 1961 was at 1962 levels, this procedure once again provides a conservative estimate of the excess cost being borne by Canadian consumers. This cost is estimated in Table A-1 as 28.2 billion dollars, calculated at present value using before tax rates of return.

With the emergence in the world of arm's-length markets for the acquisition of crude oil from which it is possible to gauge the extent of excessive transfer prices paid by the majors for crude, there emerged an arm's-length market for petroleum products. By comparing the prices of petroleum products refined in Canada with petroleum products refined elsewhere and then landed in Canada, it is possible to cast light on the extent of both the excessive transfer prices for crude and the inflated margins earned by domestic refiners.

Such data suggest that, at least in the latter part of the period, refiners' wholesale prices were about 80 cents per barrel higher than the price of imported product. For instance, Imperial reported gasoline imported into Montreal to be 2.5 cents per gallon less expensive than the wholesale price of domestically refined gasoline, a difference of 87.5 cents per barrel.<sup>1</sup> Similarly, Gulf reported a per barrel differential of 82 cents between imported and domestically refined gasoline as of January 31, 1972.<sup>2</sup>

Differences in the prices of domestically refined and imported products only partially measure the excess cost imposed upon Canadian consumers by the monopolistic situation in the import sector. In addition, domestic refiners enjoyed a degree of protection against product imports that is conservatively estimated to have been 15 cents per barrel for heavier products like residual fuel oil and 35 cents for lighter products like gasoline. Product importers had to overcome two cost items that refiners did not incur. First, a tariff applied to product importers, whereas crude oil entered free. Second, transportation charges were usually higher for refined products than for crude oil shipments.

While the customs duties component of the extra cost is readily available, the transport cost factor is more difficult to estimate. In 1964 Imperial Oil calculated that import duties raised the price of a typical barrel of imported product by 20 cents and that extra transport costs added 12 cents more.<sup>3</sup> Since 1964 crude oil has increasingly been shipped in larger tankers; accordingly transport costs fell during the late 1960s. By contrast in relation to crude, the cost of shipping refined products probably rose during the late 1960s, because petroleum products continued to move in smaller tankers.

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1. Petroleum Inquiry Document # 116604-5 (Imperial).

2. Petroleum Inquiry Document # 65319 (Gulf).

3. Petroleum Inquiry Document # 89069 (Imperial).

Two other factors suggest that the average extra cost calculated by Imperial was below the extra cost that applied later in the decade. First, the Imperial estimate is based on transportation from Carribean refineries, whereas a portion of imported products moved a greater distance from European ports to Montreal. Second, gasoline imports increased greatly in the latter half of the 1960s, and customs duties on a typical barrel of imported product increased accordingly. Imperial's figure of 32 cents is therefore a conservative estimate of the extra cost of importing a representative barrel of a refined product.

The 32 cents per barrel associated with tariffs and transport costs, together with other less important factors, would have permitted Imperial a margin of 80 cents per barrel if Imperial had charged its customers the same price as the imports cost. This would have earned a 20 percent rate of return — far more than necessary to meet the firm's own policy for rate of return required on new investment in the refinery sector. Based on this same Imperial study, it appears that Carribean refiners operated on a 60 cent margin per barrel and Canadian refiners could function with a 70 cent margin.

These figures indicate that domestic refiners, basing prices on a domestic refinery margin of 70 cents and arm's-length crude oil prices, should have consistently undersold importers by more than 15 cents a barrel for heating oil and more than 35 cents a barrel for gasoline. Instead, there are a number of indications that, at least for the latter part of this period, domestic refiners charged wholesale prices about 80 cents per barrel more than the level of product import prices. This means that consumers paid \$1.15 per barrel for gasoline above the price a competitive refinery sector would have charged. This additional charge for gasoline is more than the excess paid by refiners for imported crude, particularly during the late 1960s and early 1970s. Though this finding is not used to estimate extra costs paid by Canadians, it is worth special attention because it shows that the monopolistic situation in the importing sector was not simply a device for transferring tax liabilities abroad; it substantially enhanced the prices paid by Canadian consumers.

### *Imports of Refined Products and Excess Costs*

Because domestic refiners sold their products in Canada at considerable mark-up over arm's-length prices on world markets, they invited import competition despite the additional expenses that imports incurred for transport and customs duties. Until the independents' source of refined products disappeared in the early 1970s, imports made increasing inroads into the market share held by the majors in those parts of Canada accessible to such imports. A large portion of these imports of petroleum products would not have been necessary had there not existed the monopolistic situation in the domestic refinery sector. The extra costs associated with imports were the result of the monopolistic situation in the domestic petroleum industry and were in addition



to the excess charge borne by Canadian consumers arising from the artificial transfer price charged by the majors for crude oil imports. Estimates of these costs are shown in the third row of Table A-1.

As mentioned, the unnecessary cost to consumers of petroleum product imports is made up primarily of two components, tariffs and extra transport costs. The first — tariff expenditure — is not wholly wasted, since except for the cost of collecting the duties, the government benefits by an amount equal to the charge against users. In contrast, the second — extra transport costs — is largely wasted, since it represents unnecessary expenditures for a second best and more expensive means of transportation. In both cases, consumers were burdened by having to pay higher than necessary prices for petroleum products.

The estimates of total cost of the additional expense of importing petroleum products, as shown in row 3 of Table A-1, were found by assuming the sum of the two components of the excess charge to have been 30 cents per barrel on imported products. This is 2 cents per barrel below Imperial's estimate for 1964 and understates, for the reasons stated previously, the typical differential that applied throughout most of the period for reasons given above.

#### *Enhancement of Domestic Crude Prices*

The last source of detriment to Canadian consumers listed in Table A-1 reflects the findings reported in Volume II, where it is argued that the majors exploited the National Oil Policy. By maintaining high domestic crude prices west of the National Oil Policy Line, crude oil delivered to Toronto area refineries was more expensive than crude delivered to Montreal area refineries — even when transportation cost differences between the two areas are taken into account. These differences in costs, as reported by the companies to Statistics Canada, are shown in Table 29, Volume II and Table A-9. Before calculating the differential between the two cities, however, 15 cents per barrel was added to the Montreal refinery cost to account for the additional cost of shipping crude from Montreal to Toronto; thus both series are on a landed-in-Toronto basis.

The price differential when calculated in this manner, though not insignificant, does not reflect the true measure of the excess of domestic crude prices in Ontario because the Montreal prices were themselves excessive.

The total excess cost per barrel of crude delivered to Ontario refiners is therefore found by adding the Toronto-Montreal differential to the overcharge paid by refiners in Montreal. The total present value cost, using before tax rates of return, of this excess charge amounts to some 22.6 billion dollars.

#### *Conclusion*

The final row in Table A-1 represents the sum of the excess costs arising from each source. The magnitude of the net present value figures, ranging from 28 to 89 billion dollars, reflect the sizable role of petroleum



products in the Canadian economy. Their size attests to the necessity of having an energy industry operate as efficiently as possible. It has been shown that a conservative estimate of the overcharges incurred in a single industry during a fifteen year period are so large that if they had been invested wisely, they would be generating sufficient income from the return on the present value of the forgone wealth to erase the total annual deficit of the federal government and to leave a considerable amount for discretionary expenditures. Alternately, they would go a long way to financing the energy megaprojects that Canada will require over the coming decade if government energy policy goals are to be realized.

TABLE A-1

ESTIMATE OF EXCESS COST TO CANADIANS OF PETROLEUM  
INDUSTRY PERFORMANCE BY SOURCE: 1958-1973  
(In Billions of Dollars)

<i>Source of Excess Cost</i>	<i>1980<sup>a</sup></i>	<i>Present Value Before Tax<sup>a</sup></i>	<i>Present Value After Tax<sup>a</sup></i>
Inefficient gasoline distribution system <sup>b</sup>	5.2	34.3	11.3
Import overcharge			
— crude only <sup>c</sup>	3.2	28.2	8.2
— product only <sup>d</sup>	.6	4.1	1.3
— Total imports	3.8	32.3	9.5
Excess cost of domestic crude in Ontario <sup>e</sup>	3.1	22.6	7.3
TOTAL	12.1	89.2	28.1

(a) See Table A-2.

(b) From Table A-4.

(c) From Table A-7.

(d) From Table A-8.

(e) From Table A-9.

TABLE A-2

## GNE PRICE DEFLATOR AND ANNUAL RATE OF RETURN TO AVERAGE SHAREHOLDER'S EQUITY BEFORE AND AFTER TAX: 1958-1980

Year	GNE Deflator Index <sup>a</sup> (71 = 100)	1/GNE Deflator <sup>b</sup> (80 = 100)	Average Return to Shareholder's Equity — All Manufacturing Sectors, 1958-1980 (%) <sup>c</sup>		Present Value Factor (PVF) <sup>d</sup>	
			Before Tax	After Tax	Before Tax	After Tax
1958	69.80	3.147	17.8	11.2	53.053	12.053
1959	71.20	3.085	19.3	11.8	44.777	10.811
1960	72.10	3.046	17.7	10.6	37.748	9.720
1961	72.40	3.034	16.6	10.0	32.226	8.812
1962	73.40	2.992	18.4	11.1	27.444	7.969
1963	74.80	2.936	17.2	10.4	23.288	7.198
1964	76.60	2.867	18.5	11.3	19.761	6.550
1965	79.10	2.777	18.7	11.3	16.663	5.885
1966	82.60	2.659	19.3	12.3	14.006	5.266
1967	85.90	2.557	15.5	9.4	11.916	4.750
1968	88.70	2.476	16.7	10.1	10.268	4.327
1969	92.60	2.372	17.4	10.4	8.779	3.927
1970	96.60	2.274	12.6	7.5	7.624	3.601
1971	100.00	2.196	16.0	9.8	6.678	3.318
1972	105.00	2.092	18.1	11.1	5.706	3.003
1973	114.60	1.916	23.7	14.6	4.731	2.665
1974	132.10	1.663	26.9	16.0	3.782	2.312
1975	146.30	1.501	22.0	13.0	3.035	2.018
1976	160.50	1.368	19.3	11.4	2.512	1.798
1977	171.70	1.279	19.4	12.0	2.106	1.610
1978	182.70	1.202	20.1	12.6	1.759	1.434
1979	201.10	1.092	26.2	16.1	1.433	1.255
1980	219.63	1.000	26.7 <sup>e</sup>	16.2 <sup>e</sup>	1.133	1.081

(a) Source: *Bank of Canada Statistical Review*; annual averages based on four quarters except the 1980 value which is the annual average based on three quarters. GNE = Gross National Expenditure.

(b) Each value is found by dividing the 1980 figure by the other values in column one; numbers are rounded to the nearest decimal.

(c) Between 1974 and 1980 figures are calculated from Statistics Canada, *Corporate Financial Statistics* (61-207). Between 1963 and 1973 figures are taken from the Economic Council of Canada, *Efficiency and Regulation* (Ottawa, 1976). Between 1958 and 1962 the data is taken from the publication by the Department of National Revenue, Taxation Division, *Taxation Statistics*. Because profits reported for tax purposes and the surpluses (or retained earnings) printed in the National Revenue publication differ from Statistics Canada data, reconciliation tables are provided in several Statistics Canada issues. Rather than undertake a detailed reconciliation, rates of return were calculated from National Revenue sources for the years 1963-1970. The annual average difference between the National Revenue and Statistics Canada rates is 5.9% on a before tax basis and 3.8% on an after tax basis. To reconcile the National Revenue based rates for 1958 to 1962, with the rates for the other years, 5.9% was added to the before tax rates and 3.8% was added to the after tax rates. The lower rates arise from the National Revenue data because net profit is defined for tax purposes rather than as a measure of economic net revenue. National Revenue based rates of return for the all manufacturing sector were calculated as follows: current profit divided by the value of common stock plus the value of preferred stock, plus the surplus and minus the deficit.

(d) The present value factor (PVF) for a given year is the amount a dollar invested at the mid-point of that year would have been worth on January 1st, 1981 if each year that dollar earned the annual rate of return to average shareholders' equity in the all manufacturing sector. The formula used to calculate the PVF for a given year is  $PVF_t = (1 + \frac{1}{2}r_t) \times (1 + r_{t+1}) \dots \times (1 + r_{1980})$  where  $t$  is the given year and  $r_t$  is the rate of return for that year. For example, to calculate  $PVF_{1979}$ , multiply  $(1 + \frac{1}{2}r_{1979})$  by  $(1 + r_{1980})$ . On a before tax basis this implies  $1.131 \times 1.267 = 1.433$ . The investment earns one-half the annual rate of return in the initial year because the flow of excess payments is assumed to continue evenly over the year, so that the total detriment is not collected until the end of the year. The return to continuous reinvestment of the excess earnings as they accrue is estimated by assuming one-half the total annual detriment is invested for the year or equivalently, that the total detriment earns one-half the annual rate of return.

(e) Annual rate based on data for the first and second quarters alone.

TABLE A-3

MAJOR PETROLEUM COMPANIES' EVALUATIONS OF THE SUPERIOR  
EFFICIENCY OF THE INDEPENDENT RESELLERS OF GASOLINE 1958-1972

<i>Note</i>	<i>Year</i>	<i>Differential Per Gallon</i>	<i>Company</i>	<i>Region</i>	<i>Source</i>
1	1958- 1968	9-10.2¢ 9.5-11.8¢ 9.7-14.0¢ 7.8-9.0¢	Gulf Gulf Gulf Gulf	Toronto Vancouver Montreal Calgary	Petroleum Inquiry Documents # 74527-74643
2	1962	6.6¢	Shell	Toronto	Volume VI, Table 8
3	1970	6.3-9.6¢	Imperial	Ontario	Volume VI, Table 11
4	1971	3.5-12.5¢	Imperial	Ontario	Volume VI, Table 13
5	1971	up to 7¢	Gulf	Prairies	Petroleum Inquiry Document #71479
6	1971	5.3-11.2¢	Imperial	Ontario	Volume VI, Table 12
7	1971	4.0-9.1¢	Imperial	Quebec	Volume VI, Table 14
8	1972	5.5-11.5¢	Imperial	Ontario	Petroleum Inquiry Documents # 118394-5
9	1972	11¢	Imperial	Toronto	Petroleum Inquiry Document # 118887
10	1972	11.3¢	Shell	Toronto	Volume VI, Figure 7

1. Gulf estimated from its ten-year experience between 1958 and 1968 that it required a 9.1 cent per gallon gasoline wholesale margin to finance its national retail distribution network assuming a 7% rate of return after tax. (Petroleum Inquiry Document # 74551) This sum included a 1 cent per gallon delivery cost plus variable overhead expenses of 1.87 cents per gallon and subtracted the net revenues per gallon from products other than gasoline sold through its service station network. Gulf also supplied detailed data on average dealers margins in various cities. (Petroleum Inquiry Documents # 74625-30) These averages probably underestimate retail costs because the majors reduced retail margins in the early nineteen sixties during their attack on the independents. Using these margins as estimates of dealer costs, it is possible to estimate Gulf's combined wholesale/retail expenses.

The same Gulf study estimates that throughout the 1958-1968 period, an independent, paying the refiners 2 cents per gallon above the average cost ex refinery (a figure, according to Gulf, sufficient to provide an acceptable return on investment for the refiner), would have operated a station selling 500,000 gallons per year at a per gallon cost of 6 cents. This sum included 1 cent for transportation, 2.2 cents for rental of its service station facility and 3 cents for labour costs. While many independent resellers sold over 500,000 gallons per year, it should be noted that, although the costs of the independent were sensitive to the volumes he pumped, the extra cost per gallon to an independent selling 300,000 rather than 500,000 gallons was estimated by Gulf to have been only 1 cent per gallon. It is the difference in cost between the independent selling 500,000 gallons annually and Gulf's branded network that is presented in Table A-3.



2. A Shell study of the Toronto gasoline market for the period 1950 to 1963 (Petroleum Inquiry Documents 44887-8) revealed that, in comparison with a national unbranded gasoline retailer, Shell's distribution system suffered from two disadvantages. First, the unbranded marketer had lower investment charges per gallon (3.0 vs. 4.6 cents per gallon). Second, it had lower marketing expenses (6.5 vs. 11.5 cents when freight and delivery charges are included for both). Together, the differences in the wholesale-retail expenses between Shell and the national brand were 6.6 cents per gallon. It should be noted that Shell's analysis includes a 2 cent per gallon coupon expense in the cost structure of the unbranded marketer. (Petroleum Inquiry Document # 44888) Since the coupon could be redeemed for a wide range of merchandise, it is treated here as a price discount and not as an expense.

Information from provincial government studies of the gasoline industry conducted in the 1960s suggests that this Shell study underestimated certain components of wholesale and retail costs. Shell's study used the example of a dealer on consignment earning 6.8 cents per gallon as its estimate of retail costs while provincial studies found major brand dealer margins to run in the 8-10 cents per gallon range. (*Royal Commission on the price Structure of Gasoline and Diesel Oil in Nova Scotia*, 1968, p. 104; *Gasoline Marketing in the Context of the Oil Industry*, Alberta, 1968, p. 461; *Royal Commission on Gasoline Price Structure*, British Columbia, 1966, pp. 50-57) Shell's estimate of credit card expenses was 0.3 cents per gallon as compared with the provincial estimates in the 0.5-0.67 cent range. (Nova Scotia, p. 13; Alberta, p. 436; British Columbia, pp. 60-61) Advertising expenses were estimated by Shell to be 0.5 cents per gallon while Alberta (p. 437) and Nova Scotia (p. 12) estimated 0.61 cents and 0.7 cents respectively. Finally, Shell estimated its retail expenses to be 1.3 cents per gallon while Alberta (p. 442) calculated major brand retail expenses to be 1.87 cents. Hence, the provincial data suggests that wholesale/retail costs were at least 2.1-4.3 cents per gallon higher than Shell's study records. This implies that the independents had at least an 8.7-10.9 cent per gallon cost advantage rather than the 6.6 cents listed in Table A-3. The latter figure is much closer to Gulf's estimates reported in note 1 above.

3. An Imperial study prepared in 1970 included a comparison of the wholesale/retail margin of Imperial with both a "normal" private brand and a "discount" private brand dealer. Imperial notes that private brand operations were pricing close to cost so that the retail/wholesale margin earned by the independents reflects normal costs of operating their distribution network. Imperial did not state whether or not its own margins covered fully allocated costs for its brand system. Since, as the majors often reported (see the Gulf study referred to above in note 1), they were not recovering fully allocated costs, it is likely that these figures underestimate the true cost differentials between the majors and the independents. Furthermore, Imperial's distribution network was recognized by BP Canada as the most efficient of the distribution networks operated by the refiners. BP reported its own average volumes per station to be roughly one-half of Imperial's. (Petroleum Inquiry Document # 9632) Therefore, other majors probably suffered even greater cost disadvantages in comparison to the independents.
4. Imperial's 1971 Ontario Automotive Strategy compared wholesale and retail margins of their Esso brand to a "maximum discounter" and a "minimum discounter". The maximum discounter required a lower wholesale margin (2.7 cents vs. 6.7 cents per gallon for Imperial) and a lower retail margin (2.0 cents vs. 10.5 cents for Imperial) than the Esso brand. In the case of the minimum discounter, it had an identical wholesale margin (6.7 cents per gallon) but a lower retail margin (7.0 cents vs. 10.5 cents). (Petroleum Inquiry Document # 180143)
5. Gulf's 1971 Prairie Reseller Study concluded that "Private Brand product costs, operating expenses, overhead and acceptable profit margins are such as to enable the Private Brand chains to offer up to 7¢ off major brand prevailing pump prices". (Petroleum Inquiry Document # 71479) This study further noted "the combined wholesale/retail gasoline margin is sufficient to permit a four tier distribution system and still allow the private brand retailer to discount." (Petroleum Inquiry Document # 71482) Gulf presents an example where Gulf sold product to Pacific Petroleums who in turn resold to Mohawk who in turn resold it to Turbo who supplied private brand independents.
6. A 1971 Imperial study of "Ontario Discount Brand Economics" revealed that, compared with the Esso brand, discounters had a wholesale cost advantage ranging from 1.8 cents to 2.7 cents per gallon and a retail cost advantage of 3.5 cents to 8.5 cents per gallon. Another indication of the independents' efficiency was revealed by their profitability. The study compared an Esso station and an Arrow station in urban areas both selling identical volumes of gasoline per year, i.e. 300,000 gallons. The Arrow station, pricing 4 cents per gallon below Imperial, earned a 13% rate of return vs. 3% for the Esso station. Similarly, a non-urban XL station, pricing 9 cents below a rural Esso station, earned a 16% rate of return vs. Esso's 9%. (Petroleum Inquiry Document # 179976)
7. A 1971 Imperial study of "Quebec Discount Brand Economics" estimated that the differential between wholesale costs for the Esso brand and the discount brands ranged from a disadvantage of .1 cent per gallon for the discounters to an advantage of 4.3 cents. The discounters' retail cost advantage ranged from 3.8 cents to 4.8 cents per gallon. The supply cost advantage for the discounters ranged from .4 cents to 1.3 cents per gallon but is not included in the figures in Table A-3. Pricing 6 cents to 8 cents below Esso outlets, the Quebec discounters earned a rate of return of 11-12% vs. Esso's 4%. (Petroleum Inquiry Document # IGDS 1335)

8. An Imperial 1972 Ontario Study concluded: "They [discount brand outlets] have a wholesale cost advantage of 2-3 cents per gallon, primarily due to our facility costs and they have a retail cost advantage of 3.5-8.5 cents per gallon versus major brand dealer margins." (Petroleum Inquiry Documents # 118394-5)
9. An Imperial document from December 1972 states: "At the retail level some operators such as Suny's work on a 2 cent per gallon dealer margin which is 8 cents per gallon lower than the 10.5 cent per gallon margin of major brand dealers in Toronto. At the wholesale level a typical discounter can operate at 3 cents per gallon less than Imperial because of less costly facilities, no advertising and no credit." (Petroleum Inquiry Documents # 118887 and 116604-5)
10. A Shell 1973 Retail Task Force on Marketing estimated that independents enjoyed a 2.8 cent per gallon cost advantage on "management", "advertising", "credit card", "maintenance" and property taxes; 4.0 cents per gallon on investment and contribution to marketing; and 4.5 cents per gallon on the net dealer margin. (Petroleum Inquiry Document # 35348)

**TABLE A-4**  
PRESENT VALUES AS OF JANUARY 1, 1981 OF OVERCHARGE  
ON GASOLINE SOLD

Year	Gasoline Sold in Canada (000 gallons) <sup>a</sup>	Overcharge on Gasoline Sold (\$) <sup>b</sup>	Overcharge on Gasoline Sold in Canada		
			(1980 dollars) <sup>c</sup>	Present Value Before Taxes <sup>d</sup>	Present Value After Taxes <sup>e</sup>
1958	2,731,958	81,958,740.00	257,924,155.00	4,348,157,033.00	987,848,693.00
1959	2,864,698	85,940,940.00	265,127,800.00	3,848,177,470.00	929,107,502.00
1960	2,993,987	89,819,610.00	273,590,532.00	3,390,510,638.00	873,046,609.00
1961	3,109,181	93,275,430.00	282,997,655.00	3,005,894,007.00	821,943,089.00
1962	3,256,926	97,707,780.00	292,341,678.00	2,681,492,314.00	778,633,299.00
1963	3,440,347	103,210,411.00	303,025,767.00	2,403,564,051.00	742,908,538.00
1964	3,711,140	111,334,200.00	319,195,151.00	2,200,075,126.00	729,239,010.00
1965	3,999,385	119,981,550.00	333,188,764.00	1,999,252,568.00	706,091,422.00
1966	4,271,966	128,158,980.00	340,774,728.00	1,794,994,674.00	674,885,189.00
1967	4,480,088	134,402,640.00	343,667,550.00	1,601,541,858.00	638,412,540.00
1968	4,758,076	142,742,280.00	353,429,885.00	1,465,677,731.00	617,645,846.00
1969	5,028,264	150,847,920.00	357,811,266.00	1,324,293,890.00	592,379,782.00
1970	5,300,717	159,021,510.00	361,614,914.00	1,212,379,992.00	572,636,458.00
1971	5,526,201	165,786,030.00	364,066,122.00	1,107,119,108.00	550,078,048.00
1972	5,927,127	177,813,810.00	371,986,490.00	1,014,605,600.00	533,974,871.00
1973	6,421,268	192,638,040.00	369,094,485.00	911,370,567.00	513,380,377.00
TOTAL			5,189,836,942.00	34,309,106,627.00	11,262,211,273.00

(a) Source: Statistics Canada, Service Bulletin # 53-218.

(b) Column 1  $\times$  \$0.03. This calculation is founded on two assumptions. First, the major oil companies required 6¢ per gallon more than independent resellers to cover their higher marketing costs and, second, one-half the gallonage sold in Canada was sold through inefficient retail outlets.

(c) Column 2  $\times$  Column 2 in Table A-2.

(d) Column 2  $\times$  Column 5 in Table A-2.

(e) Column 2  $\times$  Column 6 in Table A-2.

**TABLE A-5**  
**CALCULATION OF WEIGHTED AVERAGE EXCESS PRICE PAID FOR CRUDE OIL a,e,f**

Year	Texaco				Shell				Gulf				Imperial				Sun				U.S. cents/barrel	Canadian cents/barrel
	Share of Crude Oil (%) <sup>b</sup>	Excess Price Paid for Crude (¢) <sup>c</sup>	Share × Excess (¢) <sup>d</sup>	Share of Crude Oil (%) <sup>b</sup>	Excess Price Paid for Crude (¢) <sup>c</sup>	Share × Excess (¢) <sup>d</sup>	Share of Crude Oil (%) <sup>b</sup>	Excess Price Paid for Crude (¢) <sup>c</sup>	Share × Excess (¢) <sup>d</sup>	Share of Crude Oil (%) <sup>b</sup>	Excess Price Paid for Crude (¢) <sup>c</sup>	Share × Excess (¢) <sup>d</sup>	Share of Crude Oil (%) <sup>b</sup>	Excess Price Paid for Crude (¢) <sup>c</sup>	Share × Excess (¢) <sup>d</sup>	Share of Crude Oil (%) <sup>b</sup>	Excess Price Paid for Crude (¢) <sup>c</sup>	Share × Excess (¢) <sup>d</sup>	Share of Crude Oil (%) <sup>b</sup>	Excess Price Paid for Crude (¢) <sup>c</sup>	Share × Excess (¢) <sup>d</sup>	Weighted Ave. Excess Price Paid for Crude
1958	23	97.00	22.31	22	59.00	12.98	15	100.00	15.00	24	76.00	18.24	0	—	—	—	—	—	—	—	78.53	76.22
1959	23	97.00	22.31	22	59.00	12.98	15	100.00	15.00	24	76.00	18.24	0	—	—	—	—	—	—	—	78.53	75.31
1960	23	97.00	22.31	22	59.00	12.98	15	100.00	15.00	24	76.00	18.24	0	—	—	—	—	—	—	—	78.53	76.15
1961	21	97.00	20.37	22	59.00	12.98	14	100.00	14.00	25	76.00	19.00	0	—	—	—	—	—	—	—	78.15	79.13
1962	19	97.00	18.43	21	59.00	12.39	14	100.00	14.00	25	76.00	19.00	2	90.00	180.00	75.62	2	90.00	180.00	75.62	80.32	80.13
1963	18	98.00	17.64	19	56.00	10.64	14	101.00	14.14	25	78.00	19.50	2	90.00	180.00	74.28	2	90.00	180.00	74.28	80.13	80.13
1964	14	74.00	10.36	20	46.00	9.20	15	97.00	14.55	26	70.00	18.20	3	65.00	195.00	64.38	3	65.00	195.00	64.38	69.45	69.45
1965	14	68.00	9.52	19	46.00	8.74	15	69.00	10.35	26	63.00	16.38	3	65.00	195.00	54.50	3	65.00	195.00	54.50	58.76	58.76
1966	13	65.00	8.45	18	46.00	8.28	19	33.00 N/A	6.27	24	65.00	15.60	2	58.00	116.00	50.10	2	58.00	116.00	50.10	53.98	53.98
1967	13	68.00	8.84	18	43.00	7.74	18	33.00	5.94	24	57.00	13.68	3	61.00	183.00	46.22	3	61.00	183.00	46.22	49.86	49.86
1968	14	47.00	6.58	16	18.00	2.88	18	11.00	1.98	24	42.00	10.08	3	44.00	132.00	28.43	3	44.00	132.00	28.43	30.63	30.63
1969	13	45.00	5.85	18	27.00	4.86	16	01.00	0.16	21	51.00	10.71	3	48.00	144.00	29.56	3	48.00	144.00	29.56	31.83	31.83
1970	13	26.00	3.38	19	26.00	4.94	15	06.00	0.90	22	65.00	14.30	2	48.00	96.00	31.37	2	48.00	96.00	31.37	32.75	32.75
1971	11	—	—	19	—	—	14	—	—	21	—	—	3	—	—	—	—	—	—	—	—	—
1972	11	—	—	18	—	—	12	—	—	18	—	—	3	—	—	—	—	—	—	—	—	—
1973	11	—	—	20	—	—	12	—	—	19	—	—	2	—	—	—	—	—	—	—	—	—

(a) The last two columns gives the weighted average excess price paid for crude in Canadian and U.S. funds. The exchange rates, upon which the Canadian funds are based, may be found in Volume III, Table B-7.

(b) This column gives the percentage share of crude oil imports into Quebec for each company. Source: Volume III, Table 2.

(c) This column gives the excess price paid for Venezuelan crude in U.S. dollars for each company. Source: Volume III, Tables 29 and 34.

(d) This column is derived by multiplying the previous two columns.

(e) Excess prices from 1958 through to 1961 are set at the 1962 level. The difference between the prices being paid by the major importers and arm's-length prices are even higher than the estimates presented here for 1962 and 1963. See text and Table A-6.

(f) Figures for *Share × Excess* will not sum to the amount listed in the second last column since data for Petrofina Canada and "Others" have been excluded.



TABLE A-6

COMPARISON OF CHANGES IN IMPERIAL AND TEXACO CRUDE COSTS  
TO ARM'S-LENGTH PRICES BETWEEN 1958 AND 1963  
(¢ per barrel)

	1958-63	1959-63
Imperial		
— f.o.b. 31° Venezuelan <sup>a</sup>	0.65	0.32
— arm's-length f.o.b.	0.41	0.18
Texaco		
— c.i.f. Portland for 31° Venezuelan <sup>b</sup>	0.54	0.34
— c.i.f. Portland for 34° Arabian <sup>b</sup>	0.57	0.39
— arm's-length c.i.f.	0.61	0.38

(a) Tables B-1 and B-8, Volume III.

(b) Petroleum Inquiry Document # 57548.

**TABLE A-7**  
**CALCULATION OF EXCESS CHARGE ON CRUDE OIL IMPORTS: 1958-1973**

Year	Excess Charge Per barrel (¢) <sup>a</sup>	Crude Oil Imports (barrels)	Total Excess Charge on Imports(\$) <sup>b</sup>	Excess Charge (1980 dollars) <sup>c</sup>	Excess Charge (Before Tax) <sup>d</sup>	Present Value Excess Charge (After Tax) <sup>e</sup>
1958	76.22	107,444,741	81,894,382.00	257,721,620.00	4,344,742,648.00	987,072,986.00
1959	75.31	116,342,270	87,617,364.00	270,299,568.00	3,923,242,708.00	947,231,322.00
1960	76.15	126,824,208	96,576,634.00	294,172,427.00	3,645,574,780.00	938,724,882.00
1961	79.13	133,225,748	105,421,534.00	319,848,934.00	3,397,314,355.00	928,974,558.00
1962	80.32	135,364,821	108,725,024.00	325,305,272.00	2,983,849,559.00	866,429,716.00
1963	80.13	146,586,964	117,460,134.00	344,862,953.00	2,735,411,601.00	845,478,045.00
1964	69.45	143,946,481	99,970,831.00	286,616,372.00	1,975,523,591.00	654,808,943.00
1965	58.76	144,000,656	84,614,785.00	234,975,258.00	1,409,936,162.00	497,958,010.00
1966	53.98	158,546,823	85,583,575.00	227,566,726.00	1,198,683,551.00	450,683,106.00
1967	49.86	163,087,031	81,315,194.00	207,922,951.00	968,951,852.00	386,247,172.00
1968	30.63	178,392,895	54,641,744.00	135,292,958.00	561,061,427.00	236,434,826.00
1969	31.83	190,479,081	60,629,491.00	143,813,153.00	532,266,301.00	238,092,011.00
1970	32.75	208,339,853	68,231,302.00	155,157,981.00	520,195,446.00	245,700,919.00
1971	—	244,224,822	—	—	—	—
1972	—	288,754,232	—	—	—	—
1973	—	—	—	—	—	—
<b>TOTAL</b>	—	—	1,132,681,994.00	3,203,556,173.00	28,196,753,981.00	8,223,836,496.00

(a) From last column Table A-5.

(b) Column 1 × Column 2.

(c) Column 3 × Column 2 in Table A-2.

(d) Column 3 × Column 5 in Table A-2.

(e) Column 3 × Column 6 in Table A-2.

TABLE A-8

## CALCULATION OF ADDITIONAL COST OF PRODUCT IMPORTS: 1958-1973

Year	Total Refined Product (bbl.) <sup>a</sup>	Detriment on Refined Product Imports (\$) <sup>b</sup>	Additional Cost (1980 dollars) <sup>c</sup>	Present Value	
				Additional Cost (Before tax) <sup>d</sup>	Additional Cost (After tax) <sup>e</sup>
1958	30,451,414	9,135,424.00	28,749,179.00	484,661,649.00	110,109,265.00
1959	38,821,689	11,646,507.00	35,929,474.00	521,495,644.00	125,910,387.00
1960	35,212,926	10,563,878.00	32,177,572.00	398,765,267.00	102,680,894.00
1961	29,446,032	8,833,810.00	26,801,780.00	284,678,361.00	77,843,534.00
1962	30,312,169	9,093,651.00	27,208,204.00	249,566,158.00	72,467,305.00
1963	33,844,235	10,153,270.00	29,810,001.00	236,449,352.00	73,083,237.00
1964	40,165,633	12,049,690.00	34,546,461.00	238,113,924.00	78,925,470.00
1965	60,006,704	18,002,011.00	49,991,585.00	299,967,509.00	105,941,835.00
1966	57,417,751	17,225,325.00	45,802,139.00	241,257,902.00	90,708,561.00
1967	69,671,128	20,901,338.00	53,444,721.00	249,060,344.00	99,281,356.00
1968	72,958,940	21,887,682.00	54,193,901.00	224,742,719.00	94,708,000.00
1969	73,073,614	21,922,084.00	51,999,183.00	192,453,975.00	86,088,024.00
1970	70,150,421	21,045,126.00	47,856,617.00	160,448,041.00	75,783,499.00
1971	56,931,821	17,079,546.00	37,506,683.00	114,057,208.00	56,669,934.00
1972	51,174,296	15,352,289.00	32,116,989.00	87,600,161.00	46,102,924.00
1973	44,194,464	13,258,339.00	25,402,978.00	62,725,202.00	35,333,473.00
TOTAL			613,537,467.00	4,046,043,416.00	1,331,637,698.00

(a) Source: Statistics Canada, *Imports of Refined Products*, #45-004.

(b) Column 1  $\times$  30¢. Column 2 is calculated on the assumption that an average barrel of refined product imported into Canada costs 30¢ more than a barrel of product refined in Canada by a competitive refinery sector paying arm's-length prices for crude oil. This 30¢ figure comprises custom duties ranging between 1/3¢ and 1¢ per gallon (or 11.7¢ and 35¢ per barrel) and extra transport costs incurred in transporting products from offshore refineries to Canadian markets. The 30¢ figure should be regarded as a conservative estimate of the true cost.

(c) Column 2  $\times$  Column 2 in Table A-2.

(d) Column 2  $\times$  Column 5 in Table A-2.

(e) Column 2  $\times$  Column 6 in Table A-2.



**TABLE A-9**  
**CALCULATION OF EXCESS COST TO ONTARIO CONSUMERS: 1958-1973**

Year	Domestic Crude Received by Ont. Refiners (barrels) <sup>a</sup>	Crude Cost Toronto minus Refinery in Mtl minus 15¢ (cents/barrel) <sup>b</sup>	Average Overcharge Crude Cost in Montreal (cents/barrel) <sup>c</sup>	Excess Cost at Ontario Refineries (cents/barrel) <sup>d</sup>	Total Cost (\$) <sup>e</sup>	Overcharge to Ontario Consumers (1980 dollars) <sup>f</sup>	Present Value	
							Before tax <sup>g</sup>	After tax <sup>h</sup>
1958	60,329,816	—	76.22	76.22	45,983,386.00	144,709,716.00	2,439,556,577.00	554,237,751.00
1959	72,429,969	—	75.31	75.31	54,547,010.00	168,277,526.00	2,442,451,467.00	589,707,725.00
1960	72,100,463	—	76.15	76.15	54,904,503.00	167,239,116.00	2,072,535,179.00	533,671,769.00
1961	80,551,174	—	79.13	79.13	63,740,144.00	193,387,597.00	2,054,089,881.00	561,678,149.00
1962	84,729,390	7.00	80.32	87.32	73,985,703.00	221,365,223.00	2,030,463,633.00	589,592,067.00
1963	94,943,838	19.00	80.13	99.13	94,117,826.00	276,329,937.00	2,191,815,932.00	677,460,112.00
1964	103,014,110	24.00	69.45	93.45	96,266,686.00	275,996,589.00	1,902,325,982.00	630,546,793.00
1965	109,336,596	36.00	58.76	94.76	103,626,311.00	287,770,266.00	1,726,725,220.00	609,840,840.00
1966	113,672,062	40.00	53.98	93.98	106,829,004.00	284,058,322.00	1,496,247,030.00	562,561,535.00
1967	113,136,772	44.00	49.86	93.86	106,190,175.00	271,528,277.00	1,265,362,125.00	504,403,331.00
1968	120,013,645	39.00	30.63	69.63	83,565,501.00	206,908,180.00	858,050,654.00	361,587,923.00
1969	124,396,543	47.00	31.83	78.83	98,061,794.00	232,602,575.00	860,884,490.00	385,088,665.00
1970	134,891,748	33.00	32.75	65.75	88,691,324.00	201,684,071.00	676,182,654.00	319,377,458.00
1971	135,478,112	47.00	—	47.00	63,674,712.00	139,829,668.00	425,219,727.00	211,272,694.00
1972	137,477,565	19.00	—	19.00	26,120,737.00	54,644,582.00	149,044,925.00	78,440,573.00
1973	148,886,750	—	—	—	—	—	—	—
TOTAL						3,126,331,645.00	22,590,955,386.00	7,269,467,385.00

(a) Source: Statistics Canada, *Refined Petroleum Products*, # 45-208.

(b) Source: Volume II, Table 29.

(c) From Table A-5.

(d) Column 2 plus Column 3.

(e) Column 1 × Column 4.

(f) Column 5 × Column 2 in Table A-2.

(g) Column 5 × Column 5 in Table A-2.

(h) Column 5 × Column 6 in Table A-2.

## **APPENDIX B**

### **Company Profiles of the Largest Petroleum Refiners-Marketers in Canada**





## **Company Profiles of the Largest Petroleum Refiners-Marketers in Canada**

### **BP Canada Inc.**

<b>Head Office:</b>	1245 Sherbrooke St. W. Montreal, Quebec. H3G 1G7
<b>Principal Business:</b>	Marketing, refining, transportation of and exploration for crude oil and natural gas in Canada. The company is also engaged in the exploration and development of coal, uranium and other base metals.
<b>Major Shareholder:</b>	BP Canadian Holdings Ltd. (65%). This is a wholly owned subsidiary of The British Petroleum Co. Ltd. of London, England.
<b>1979 Sales:</b>	\$889,579,000.
<b>Subsidiary Companies:</b>	BP Oil Limited BP Exploration Canada Limited British Columbia Oil Lands Limited BP Minerals Limited BP Oil and Gas Investments Limited BP Properties Limited Sakuna Mines Limited
<b>Principal Investments:</b>	Magnorth Petroleum Ltd.

**Corporate History:** British Petroleum (BP) Canada Ltd. entered the Canadian scene in 1953 when it acquired a one-third interest in Triad Oil Ltd., a western Canadian exploration company. Between 1953 and 1957, when it began its marketing operations in Canada, BP developed a group of exploration companies, now called the Triad group. In 1955, BP broadened its base in Canada with the formation of BP Exploration Canada Ltd. to back up its existing interest in Triad Oil. BP has since increased its shareholdings in Triad Oil to 65.9 percent.

The company started marketing gasoline in Canada in 1957. That year it constructed and/or acquired over 100 retail outlets in the province of Quebec. In the spring of 1958 it purchased P.M. Fleming Ltd., the largest and best known distributing company in northern Quebec and Ontario. This acquisition brought approximately 120 retail outlets into the BP chain. That same year BP also acquired the outlets of the Lake St. John Distributing Company which operated in the Chicoutimi area.

By 1961 BP had built up its marketing system to over 900 outlets. Gasoline was supplied to these outlets from BP's refinery in Montreal East which went on stream in 1960.

In June 1964, the company acquired the Canadian refining and marketing assets of Cities Service Company, thereby increasing the number of B.P.'s retail outlets to over 1,800 in the provinces of Ontario and Quebec. The Clarkson, Ontario refinery placed the company in a better position to supply its Ontario dealers.

In the fall of 1971, BP acquired Supertest Petroleum Corporation, Ltd., a Canadian company that was founded in 1925 with headquarters in London, Ontario. Supertest was engaged in the distribution of petroleum products in Ontario and Quebec as well as in oil and gas exploration in Western Canada. The Supertest acquisition added another 1100 outlets to BP's chain.

In late 1972, BP Canada Limited and its 65.9 percent-owned subsidiary, BP Oil and Gas Ltd., were amalgamated under the name of BP Canada Limited. Prior to this amalgamation, all marketing assets and business of BP Canada Limited were transferred to the wholly-owned subsidiary, BP Oil Limited.

Effective January 1, 1974, the subsidiary BPOG Operations Ltd. and its wholly-owned subsidiaries, BP Exploration Canada Limited, Berland River Exploration Limited, Horn River Exploration Limited and Monkman Exploration Limited, merged under the continuing name of BP Exploration Canada Limited.

In January 1975, BP Oil Limited (acquired Dec. 23, 1971) and its wholly-owned subsidiary, BP Refinery Canada Ltd., amalgamated to form a new company, BP Oil Limited.

During 1976, the company purchased the remaining 62.25 percent of British Columbia Oil Lands Limited which it had not previously owned; British Columbia Oil Lands is now a wholly-owned subsidiary.

On April 27, 1979, the company obtained a federal incorporation and was continued under the Canada Business Corporations Act. The name of the company was altered from BP Canada Limited to BP Canada Inc.

**Officers:**

D.F. Mitchell, Chairman  
R.W.D. Hanbridge, President  
J.A. Barclay, Vice-President  
Supply and Refining  
E.W. Best, Vice-President  
Exploration and Production  
T.R. Dalglish, Vice-President  
Marketing  
J. Langelier, Vice-President,  
General Counsel, Secretary

## Chevron Canada Limited

<b>Head Office:</b>	1500-1050 West Pender Street, Vancouver, British Columbia. V6E 3T4
<b>Principal Business:</b>	Marketing, refining, transportation of and exploration for crude oil and natural gas in Canada.
<b>Major Shareholder:</b>	Standard Oil Co. of California (100%).
<b>Subsidiaries:</b>	Standard Oil of British Columbia Chevron B.C. Ltd. Chevron Oils Limited Dominion Oil Limited Furnace Oil Sales Ltd. Standard Stations Limited
<b>Affiliate:</b>	Chevron Standard Ltd.

**Corporate History:** Standard Oil of California began operations in Canada when it incorporated its wholly-owned subsidiaries Standard Oil of British Columbia and Standard Stations Limited on March 12, 1935 in British Columbia. On April 21, 1935 the Signal Oil Company of British Columbia Limited was incorporated in B.C. Signal's name was changed to Chevron B.C. Ltd. on March 28, 1968. On March 24, 1945 Dominion Oil Limited was incorporated in British Columbia as a wholly-owned subsidiary and remains so today. Finally, Chevron Canada Limited was incorporated under federal charter on March 15, 1966.

Chevron Canada manages the activities of Standard Oil of British Columbia along with its own. The company operates a 36,000 barrel per day refinery near Vancouver and markets its petroleum products through some 400 service stations in western Canada. Chevron Standard is one of the largest oil and gas producers in Canada and in addition is engaged in the exploration and development of oil and gas.

<b>Officers:</b>	C.B. Macdonald, President and Managing Director D.C. Smith, Vice-President E.M. Kura, Vice-President M.H. Kelly, Vice-President
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## Federated Co-Operatives Limited

<b>Head Office:</b>	401 22nd Street, Saskatoon, Saskatchewan.
<b>Principal Business:</b>	Procurement, production, manufacturing and distribution of agricultural products, petroleum products, building materials, hardware, crop supplies, livestock and poultry feeds and dry goods.
<b>Shareholders:</b>	400 retail co-operatives plus 44 other
<b>1979 Sales:</b>	\$253,386,000.
<i>Key Petroleum Statistics: 1979</i>	
<b>Crude Oil Processed:</b>	32,000 barrels per day.
<b>Subsidiaries:</b>	Consumers' Co-Operative Refineries Limited

**Corporate History:** Originally incorporated under Special Act of the Saskatchewan Legislature in 1928. Granted registration under the Canada Cooperative Associations Act on March 9, 1979.

Federated Co-ops and its wholly-owned subsidiary, Consumers' Co-operative Refineries Limited, are different from all other companies in the oil industry. They are co-operative organizations that are owned and controlled by the member-patrons they serve.

Federated was first known as the Saskatchewan Co-operative Wholesale Society. Its function was to serve as a wholesaler to consumer-owned retail co-operatives in Saskatchewan. The retail Co-ops together owned the Wholesale Society which means they were, and still are, responsible for providing ownership capital and exercising democratic control. In turn, the Wholesale Society returns surpluses arising from its operations to its members.

Consumers' Co-operative Refineries Limited was incorporated in Saskatchewan on April 1, 1934. A small plant located in Saskatoon, processing 500 barrels of crude oil per day, went on stream on May 27, 1935. It was the world's first co-operatively owned petroleum refinery and behind its formation were 10 farmer-owned co-ops in the province. In 1940, the refinery capacity was increased to 1,200 barrels per day with the formation of many more petroleum co-ops and the increased demand for petroleum products.

The refining and wholesale co-ops served essentially the same people. In 1944 the two organizations amalgamated, and the Wholesale Society became known as the Saskatchewan Federated Co-operatives Limited, with Consumers' Co-op its wholly-owned subsidiary.

Co-operative wholesalers were established in the other three provinces of Western Canada — Manitoba, Alberta and B.C. — and have since amalgamated with Federated Co-ops. Today, the refinery has a rated capacity of approximately 40,000 barrels per day. Petroleum products are distributed through some 600 retail gasoline outlets, 400 bulk plants, 250 automotive and tire centres, 60 propane filling stations and 8 bulk distribution locations.

**Officers:**

T.P. Bell, Chief Executive Officer  
V.J. Leland, President  
L.J. Hayes, Vice-President,  
Saskatoon Region  
H.E. Wessner, Vice-President,  
Regina Region  
H.L. Empey, Secretary  
B.F. Dahlstrom, Refinery Manager

**Gulf Canada Limited****Head Office:**

130 Adelaide St. West,  
Toronto, Ontario.  
M5H 3R6

**Principal Business:**

Marketing, refining, transportation of and exploration for crude oil and natural gas in Canada. The company is also engaged in the manufacture and sale of chemicals and in mineral exploration and development.

**Major Shareholder:**

Gulf Oil Corporation (60%).

**1979 Sales:**

\$3,007,000,000.

**Subsidiary Companies:**

Gulf Canada Products Company  
Gulf Canada Resources Inc.  
Servico Limited  
Superior Propane Limited

Gulf Oil Canada Limited — Saskatoon  
 Pipe Line  
 Gulf Oil Canada Limited — Gulf  
 Alberta Pipe Line  
 Gulf Oil Canada Limited — Valley  
 Pipe Line  
 Gulf Oil Canada Limited — Gulf  
 Saskatchewan Pipeline  
 Shawinigan Pipe Line

**Principal Investments:**

The Alberta Gas Trunk Line Company  
 Limited; now Nova Corporation (9%)  
 Alberta Products Pipe Line Limited  
 (40%)  
 Carnduff Gas Limited (20%)  
 Glen Park Gas Pipe Line Company (33%)  
 Interprovincial Pipe Line Company (7%)  
 Montreal Pipe Line Company Limited  
 (16%)  
 Peace Pipe Line Ltd. (13%)  
 Rimbey Pipe Line Co. Ltd. (40%)  
 Trans Mountain Pipe Line Company Ltd.  
 (8%)  
 Trans-Northern Pipe Line Company  
 (33%)

*Key Petroleum Statistics: 1979*

<b>Gross production of crude oil and natural gas liquids:</b>	135,000 barrels per day
<b>Gross production of natural gas:</b>	388 million cubic feet per day
<b>Crude oil processed:</b>	318,000 barrels per day
<b>Petroleum product sales:</b>	270,000 barrels per day
<b>Exploration land holdings (hydro- carbons):</b>	29 million acres

**Corporate History:** Originally incorporated in Ontario in 1906, under the name of the British American Oil Company Limited. Granted a Dominion charter (continuance, June 1978) on June 4, 1909. Name changed to Gulf Oil Canada Limited on January 1, 1969. Name changed to Gulf Canada Limited on June 1, 1978.



The British American Oil Company Limited (BA) was founded in Toronto in 1906 by a group of eight Canadian investors. In 1907, it built its first, and Canada's third, major refinery in Toronto. The company began selling kerosene and lubricating oils in Quebec. In 1920 BA purchased the Winnipeg Oil Company and began marketing in the three prairie provinces.

In 1924-25 BA undertook its first step to becoming a fully-integrated operation by forming two U.S. subsidiaries. To service its market requirements, the company established the Toronto Pipe Line Company to build and to operate crude oil pipelines in the United States. A year later it formed The British-American Oil Producing Co. to explore for and develop crude oil.

In 1933 BA purchased the physical assets of The Sterling Oil Refineries, Limited of Moose Jaw, Saskatchewan. In early 1934 it acquired the refinery of the Northwest Stellarene Co., Inc. at Coutts, Alberta. As of January 1, 1937 the parent company took over the assets of The British American Oil Refineries, Limited, a former subsidiary which had operated the company's refineries.

By 1939, BA had refineries in Toronto, Montreal, Moose Jaw, Coutts and Calgary. In 1943 it opened its largest refinery (8300 barrels per day) in Clarkson, Ontario to replace the Toronto plant. Two years later the company purchased the assets of Union Oil Company of Canada and extended its marketing operations to the west coast; in 1947, it extended east into Newfoundland.

In April 1946, BA acquired a 20 percent interest in the Portland-Montreal Pipe Line, running from Portland, Maine to Montreal, Quebec. This share has since been reduced to 16 percent.

In 1950, BA purchased control of Anglo-Canadian Oils Ltd., which had a refinery at Brandon, Manitoba.

After the Second World War, BA began its association with Gulf Oil Corporation of Pittsburgh when the U.S. firm purchased a 20 percent interest in the Canadian company. In 1956 BA issued 8.3 million shares to Gulf Oil Corporation to acquire the assets of Canadian Gulf. In the process, BA's land holdings and oil production increased tenfold; the firm also became the largest holder of natural gas reserves in Canada. At the same time, BA became a 69 percent-owned subsidiary of Gulf Oil Corporation.

In 1956 the company purchased the distribution facilities of Cashin Oils Ltd. of Newfoundland. In 1958, the Port Moody refinery in British Columbia was completed.

In 1962, BA acquired 100 percent of the outstanding common shares of Superior Propane Ltd. and in 1963 acquired 97.6 percent of the common stock of Royalite Oil Co. Ltd. In 1965 the company acquired all outstanding common shares of Western Tire and Auto Supply Ltd. and of Gunning Oil Ltd., which had gasoline marketing operations in Ontario and Quebec.

In 1969, a separate marketing group called Servico Limited was set up to consolidate company-owned-and-operated retail merchandising activities.

In 1975, Gulf Canada sold its wholly-owned subsidiary, Western Tire and Auto Supply (Canada) to UAP Inc. of Montreal.

Today the company owns and operates five refineries (Montreal, Clarkson, Edmonton, Kamloops, Port Moody) and two asphalt plants (Moose Jaw, Calgary). The Point Tupper, Nova Scotia refinery ceased operations in 1980. The company markets its petroleum products in all provinces of Canada and the Yukon through bulk plants, distributors and approximately 2,500 service stations.

**Officers:**

J.C. Phillips, Chairman  
J.L. Stoik, President  
L.P. Blaser, Executive  
Vice-President  
R.C. Beal, Vice-President  
W.H. Burkhiser, Vice-President  
and Treasurer  
R.E. Harris, Vice-President  
C.G. Walker, Vice-President  
Marketing  
E.E. Walker, Vice-President  
W.M. Winterton, Vice-President,  
General Counsel and Secretary

**Imperial Oil Limited**

**Head Office:**

111 St. Clair Ave. West,  
Toronto, Ontario.  
M5W 1K3

**Principal Business:**

Marketing, refining, transportation of and exploration for crude oil and natural gas in Canada. The company is also engaged in the manufacture and sale of chemicals, fertilizers and building materials, and in mineral exploration and development.

**Major Shareholder:**

Exxon Corporation (69%).

**1979 Sales:**

\$6,557,000,000.

<b>Subsidiary Companies:</b>	Atlas Supply Company of Canada Limited
	Champlain Oil Products Limited
	ESF Limited
	Esso Resources Canada Limited
	The Imperial Pipe Line Company, Limited
	Maple Leaf Petroleum Limited
	Nisku Products Pipe Line Company Limited
	Servacar Ltd.
	Winnipeg Pipe Line Company Limited
	86129 Canada Ltd.
	434838 Ontario Ltd.
	95185 Canada Limited
	95269 Canada Limited

<b>Principal Investments:</b>	Alberta Products Pipe Line Ltd. (30%)
	Interprovincial Pipe Line Limited (32.8%)
	Montreal Pipe Line Limited (32%)
	Rainbow Pipe Line Company Ltd. (2.6%)
	Trans Mountain Pipe Line Company Ltd. (8.6%)

*Key Petroleum Statistics: 1979*

<b>Gross production of crude oil and natural gas liquids:</b>	256,000 barrels per day
<b>Gross production of natural gas:</b>	345 million cubic feet per day
<b>Crude oil processed:</b>	450,000 barrels per day
<b>Petroleum product sales:</b>	468,000 barrels per day
<b>Exploration land holdings:</b>	28 million acres

**Corporate History:** Incorporated under Federal Charter on September 8, 1880 as The Imperial Oil Co., Limited. Name changed to Imperial Oil, Limited on September 15, 1919. On June 3, 1959 the name was modified to Imperial Oil Limited. Articles of Continuance under the Canada Business Corporations Act, April 24, 1978.



The company was formed by a group of 16 Canadian refiners intent on meeting the threat of U.S. competition, particularly that of the Standard Oil Company of New Jersey (now Exxon Corporation). By the late 1890s, Standard Oil had acquired control of three Canadian refining firms and had captured a third of the Canadian market.

In 1898, Standard Oil of New Jersey (Exxon) gained majority ownership in Imperial when the latter was unable to raise expansion capital from other sources.

The move towards full integration of the petroleum industry as we know it today began as early as in 1914. Imperial first integrated backwards by establishing an exploration — production department and by setting out to meet its supply requirements in three ways. First, it built a 153-mile pipeline connecting its Sarnia refinery with oil fields in Ohio; second, it incorporated a subsidiary, the International Petroleum Company, to develop low cost crude supplies in South America; and third, it launched an exploration campaign in western Canada.

By 1920 Imperial had increased its number of refineries from one to five (Vancouver, Regina, Sarnia, Montreal, and Halifax) and expanded its crude refining capacity from 900 barrels per day to 24,000 barrels per day.

In 1921 the company erected a small refinery at Norman Wells, N.W.T., which operated for a year and was then shut down until 1933. It was then reopened to supply fuel to Great Bear Lake mining division, crude oil being supplied from Norman Wells field. Demand soon exceeded refinery capacity and in 1939 company built a modern 840 barrel per day capacity refinery, equipped for production of aviation gasoline.

In March 1932, control of Domestic Storage and Forwarding Co. was acquired. Early in 1946 the company acquired a 40 percent interest in both the Montreal Pipe Line Co. Ltd. and Portland Pipe Line Corp. Part of this interest has since been sold to other companies.

On Feb. 13, 1947, the company successfully completed Imperial Leduc No. 1 well, in what proved to be the first major oil discovery in Canada since the Turner Valley field was opened. Since then, company has discovered or participated in discovery of a number of large and small oil and gas pools in western and northern Canada.

In 1948, the company sold to its shareholders its controlling interest in International Petroleum Co., Ltd. in order to supply a large amount of additional funds for general purposes of the company, and particularly for the oil development program in western Canada.

In 1955, the company entered the petrochemical field with the planning of a petrochemical plant at Sarnia, Ontario.

Today, the company operates six refineries in Canada (Dartmouth; Montreal; Sarnia; Strathcona; Alberta; Vancouver; Norman Wells) and markets its petroleum products through some 4000 retail outlets and 900 agents. Imperial also owns and operates a fleet of trucks.

**Officers:**

J.A. Armstrong, Chairman  
 J.G. Livingstone, President  
 J.W. Flanagan, Senior  
 Vice-President  
 D.D. Loughheed, Senior  
 Vice-President  
 V. Sirois, Senior Vice-President  
 T.H. Thomson, Senior Vice-President  
 W.J. Young, Senior Vice-President  
 D.H. MacAllan, General Secretary  
 G.A. Rogers, General Counsel  
 M.G. Hanford, Vice-President and  
 General Manager Marketing  
 W.A. West, Vice-President Logistics  
 P. Stauft, Vice-President Natural  
 Resources Coordination

### Irving Oil Limited

**Head Office:**

10 Sydney Street,  
 St. John, New Brunswick.  
 E2L 2L2

**Principal Business:**

Marketing, refining and transportation of  
 crude oil and petroleum products in east-  
 ern Canada.

**Major Shareholders:**

FMO Company Limited (51%); Standard  
 Oil Company of California (49%)

**Subsidiaries:**

Irving Oil Inc.  
 Eastern Oil and Service Stations Ltd.  
 Irving California Oil Co. Ltd.  
 Irving Steamships Ltd.  
 Marquette Oil Co. Ltd.  
 Les Pétroles Inc.

**Incorporation Date:**

Federal charter February 9, 1929.  
 Continuance October 27, 1980.

**Corporate History:** Irving Oil Limited was formed in 1973 by amalgamation of Irving Oil Company, Limited and Irving Refining Limited.

Irving Oil Company, Limited was a Canadian company formed in 1929 to market petroleum products in Quebec and the Atlantic provinces.

In 1957 the Standard Oil Company of British Columbia (100 percent owned by Standard Oil of California) purchased a 49 percent interest from the Irving family.

Irving Refining Limited was formed in 1957 to construct and operate a refinery in St. John, New Brunswick. Standard Oil of British Columbia held a 51 percent interest in this company while Irving owned 49 percent. The original refinery went on stream in 1960 processing 36,000 barrels per day of Iranian light and Arabian light crudes and was subsequently increased to 120,000 barrels per day in 1971. By 1977 the capacity was increased to 250,000 barrels per day.

Irving California Oil Company Limited is a Bermuda trading company formed in 1971 to acquire all the crudes processed by the St. John refinery. It is authorized to buy products in the open market to cover demands not filled by the refinery and to sell products generated by the refinery that are in excess of Irving's needs. This company is wholly-owned by Irving Oil Limited.

Currently Irving Oil Limited markets petroleum products throughout the Atlantic provinces and Quebec under the Irving brand.

**Officers:**

R.T. Savage, Chairman  
A.L. Irving, President  
J.K. Irving, Vice-President  
J.E. Irving, Vice-President  
T. Cleary, Marketing  
W. London, Supply and Transportation

**Petrofina Canada Inc.**

**Head Office:**

The Royal Bank of Canada Building,  
1 Place Ville Marie,  
Montreal, Quebec.  
H3B 4A9

**Principal Business:**

Marketing, refining, development and production of petroleum and petrochemical products in Canada.

**Major Shareholder:**

Petrofina S.A. (71.5%) until February 1981 when it appeared that ownership would be transferred to Petro-Canada.



**1979 Sales:** \$764,402,000.

**Principal Investments:** Montreal Pipe Line Co. Ltd. (10%)

**Corporate History:** Incorporated under federal charter on May 1, 1953 as Canadian Fina Refineries Limited. Name was changed to Canadian Petrofina Limited on August 12, 1953. Name changed to Petrofina Canada Inc. on August 9, 1979.

In 1950, the Belgium Petrofina group formed a wholly-owned subsidiary called Canadian Fina Oil Ltd. to explore for oil and gas in western Canada. The group had planned a fully integrated company from the beginning and by 1953 Canadian Petrofina Limited had been formed to build and operate a refining and marketing operation in eastern Canada. Actual operations commenced on July 1, 1953 and in October 1953 the first retail outlet was opened.

Soon after Canadian Petrofina Limited purchased Calvin Consolidated Oil & Gas Co. Ltd., Norval Oil Co. Ltd., Dominion Oil Ltd., Miller Oil Co., and Graham Oil Co. Ltd. These companies were gasoline and oil distributing companies in Ontario and Quebec whose operations were subsequently integrated with those of the parent company.

In June, 1955, Canadian Petrofina Limited entered into an agreement with Superline Oils Ltd. and Super-Service Stations, Ltd., wholly-owned subsidiaries of United Service Corp., whereby these companies agreed to abandon their brand names and handle company products. As a result, the company acquired about 400 outlets in the Maritimes. Effective December 29, 1955, the company acquired control of United Service Corp. Ltd.

During 1955, the company purchased 10 percent interest in Montreal Pipe Line Co. Ltd. and its wholly-owned subsidiary, Portland Pipe Line Corp.

As of June 29, 1960, Canadian Petrofina acquired all assets of New Superior Oils of Canada Limited.

Late in 1961, an offer by the company to purchase all the outstanding shares of Canadian Fina Oil Ltd., Calgary from its parent company, Petrofina S.A., of Brussels, was accepted.

In 1962, Finacentres Limited was formed to operate a trans-Canada chain of accessory-service centres. In 1971, the operations of Finacentres were taken over by the parent company and Finacentres surrendered its charter.

During 1970, the company sold its 9.6 percent share interest in Producers Pipelines Ltd.

In November 1971, the company and its wholly owned subsidiary, Canadian Fina Oil Limited, were merged into one company, retaining the name Petrofina Canada Ltd. In addition, twelve small subsidiaries were merged or dissolved.

Today the company operates a 95,000 barrel per day refinery at Pointe-aux-Trembles, near Montreal, and markets its products through 41 bulk plants and some 1,100 retail outlets in Quebec, Ontario, and the Maritimes.

## **Shell Canada Limited**

<b>Head Office:</b>	505 University Avenue, Toronto, Ontario. M5G 1X4
<b>Principal Business:</b>	Exploration, production, purchase, refining, transportation and marketing of petroleum and petroleum products. The company is also diversified into coal and other mineral exploration and development, as well as other industries.
<b>Major Shareholder:</b>	Shell Investments Limited (70.8%). Shell Investments is a wholly-owned subsidiary of Shell Petroleum N.V., a member of the Royal Dutch/Shell group of companies.
<b>1979 Sales:</b>	\$3,436,000,000.
<b>Subsidiary Companies:</b>	Shell Canada Resources Limited Crows Nest Resources Limited Shell Canada Chemical Company
<b>Principal Investment:</b>	Alberta Products Pipe Line Limited (10%) Peace Pipe Line Ltd. (12.8%) Sun-Canadian Pipe Line Company Limited (45%) Trans-Northern Pipe Line Co. (33%) Interprovincial Pipe Line Ltd. (2%) Montreal Pipe Line Company Limited (16%) Trans Mountain Pipe Line Company Limited (8.6%)
<b>Officers:</b>	P.A. Nadeau, Chairman and President J.E. Baugh, Senior Vice-President Exploration and Production T.H. Allman, Vice-President and Treasurer J.A. Dodd, Vice-President Manufacturing A.W. McLeod, Vice-President, Secretary and General Counsel

N.H. Van Son, Vice-President Supply  
and Logistics  
R.J. Redding, Vice-President  
Marketing

*Key Petroleum Statistics: 1979*

<b>Gross production of crude oil and natural gas liquids:</b>	76,000 barrels per day
<b>Gross production of natural gas:</b>	635,000 cubic feet per day
<b>Crude oil processed:</b>	281,000 barrels per day
<b>Petroleum product sales:</b>	272,000 barrels per day
<b>Exploration land holdings:</b>	25 million acres

**Corporate History:** The original company, called the Shell Company of Canada, Limited, was incorporated in Ontario on March 21, 1911. On August 7, 1925 the company was re-incorporated under Federal charter and re-named the Shell Oil Company of Canada, Limited. Effective July 1, 1963, the company's name was changed to Shell Canada Limited.

The Shell Company of Canada, Limited was incorporated in 1911 by the Royal Dutch/Shell Group to operate bunkering installations and storage facilities in Montreal for gasoline brought in by Shell tankers from Borneo. The Royal Dutch/Shell Group itself resulted from a merger in 1907 of Royal Dutch/Shell of the Netherlands and Shell Transport of England in order to meet the threat of Standard Oil of New Jersey. The Royal Dutch/Shell Group of Companies is the name which, in the course of time, has been given to a complex of some five hundred companies whose shares are owned, directly or indirectly, wholly or in part, by Royal Dutch and The Shell Transport and Trading Company, Limited. These two companies are known as the parent companies of the Group; they are public companies and hold the entire interest (60 percent by Royal Dutch, 40 percent by Shell Transport) in Bataafse Petroleum Maatschappij N.V. and The Shell Petroleum Company Limited, which are holding companies holding the shares, wholly or in part, of the several hundred operating companies of the Group.

The construction of a small bulk plant at Vancouver in 1913 by another Shell company marked the beginning of operations in western Canada. Direct marketing operations were commenced in 1921, when the company opened a chain of bulk distribution plants in Ontario and Quebec. At the same time, a division of Shell Oil Co. of California took over British Columbia operations.



The first Shell refineries in Canada were at Montreal and Vancouver and came on stream in 1932 and 1933 respectively. The Shell marketing organization was slowly built in Canada, with Shell Oil Company of British Columbia operating in the west and Shell Oil Company of Canada in the east.

Since Shell had a source of crude oil through its connections with the Royal Dutch/Shell Group, it was not until 1939 that the company started exploring for oil in western Canada. The initial venture was directed by Shell Oil Company, the 65 percent owned U.S. subsidiary of Royal Dutch/Shell.

Shell Oil Company of British Columbia incorporated in 1929 and owned by Shell of California, became a wholly-owned subsidiary of Shell Oil Company of Canada, Limited in 1945. In 1950, its operations were merged with Shell Oil Company of Canada, Limited.

Shell suspended its exploration activities in Canada in 1946 when the Royal Dutch/Shell Group was forced to retrench its interests following World War II and to concentrate in Venezuela where prospects for a more immediate return were better. Within a year, however, Imperial Oil discovered Leduc, and shortly after that, Redwater. Shell reassessed its position and began exploring in the Prairie provinces again in 1950, this time financed 50 percent by the U.S. firm, Shell Oil Company, and 50 percent directly by Royal Dutch/Shell.

In 1952, manufacture of petrochemicals was begun with construction of a plant at the Montreal East refinery. In 1954, the company acquired the assets of Shell Oil Company of Newfoundland Ltd.

In 1957, the company acquired all the exploration and production facilities of other Shell companies operating in Canada, and thus became engaged in all phases of the petroleum business in Canada. Also acquired at that time were the assets of Deep Sea Tankers Ltd., and the outstanding preference stock of Shell Canadian Tankers, Ltd.

With the consolidation of 1957, Shell Canada for the first time became a fully-integrated oil company. Since then, Shell has broadened its base by acquiring other petroleum companies. In 1960, Shell acquired North Star Oil Limited, an independent producing — refining — marketing company based in Winnipeg. North Star was the third largest marketer of petroleum products in western Canada and gave Shell its first marketing entry on the Prairie provinces. In 1962, Shell bought Canada's last independent, fully-integrated oil company — Canadian Oil Companies Ltd. — a company which had its origins in the pioneer Ontario oil fields of Oil Springs and Petrolia. Canadian Oil, selling under the brand name White Rose, was an integrated company with 5,000 barrels per day production, two refineries and 3,000 White Rose stations across the country. Its acquisition placed Shell in a strong position throughout the country. With the help of these acquisitions and other investments in expansion and exploration, Shell passed Gulf Canada in total sales in 1968 to become the second largest oil company in Canada.

In 1969, Shell Petroleum Co. acquired 100 percent of the issued shares of what is now Canadian Fuel Marketers Ltd. (CFM). Originally founded in 1978 as a coal retailing business, the company is now the largest eastern Canadian marketer of liquid fuels. Its network of 70 marketing units and subsidiaries in Quebec and Ontario has 10 million barrels of storage capacity and moves 5 million barrels per year of products — including distillate fuels, residuals and motor gasoline — in about equal volumes in the two provinces. 100 percent of the issued shares of CFM was acquired by U.K. based Ultramar Ltd. in January 1979.

Effective August 1, 1979, Shell Canada Resources Limited became responsible for all oil, gas, oil sands, coal and minerals activities.

On January 1, 1977, Anglo Canadian Oil Co. (1955) Ltd. and Cree Oil of Canada Limited were amalgamated with Shell Canada Resources Limited.

Following a successful application to the Foreign Investment Review Agency, the company acquired through Shell Canada Resources Limited, all the common shares of Crows Nest Industries Limited in mid-1978.

Three new wholly-owned subsidiaries were formed in 1978. Crows Nest Resources Limited, Salmon Resources Ltd. and Salmon Pipelines Ltd. Also in 1978, the Alsands Project Group was formed to develop an oil sands mining project in northeastern Alberta. Shell Canada, with a 25 percent interest, is project manager of the nine-company consortium.

Today the company owns and operates six refineries in Canada (Montreal, Oakville, Sarnia, St. Boniface, Bowden, Shellburn, B.C.) and markets its products through some 600 bulk plants and 3,500 retail outlets.

**Officers:**

C.W. Daniel, President  
D.J. Taylor, Senior Vice-President  
D.W. Menzel, Senior Vice-President  
J.M. MacLeod, Senior Vice-President  
L.F.J. Bolger, Vice-President  
Chemicals  
G. Robertson, Vice-President  
Exploration  
J.E. Czaja, Vice-President Oil  
Sands Mining Development  
A.G. Seager, Vice-President Oil  
Products  
W.M. Catterson, Vice-President  
Manufacturing and Engineering  
D.C. Hayes, Secretary

### Suncor Inc.

<b>Head Office:</b>	20 Eglinton Ave. W. Toronto, Ontario. M4R 1K8
<b>Principal Business:</b>	Marketing, refining, transportation of and exploration for crude oil and natural gas in Canada. The company also produces synthetic crude oil and petrochemicals.
<b>Major Shareholder:</b>	Sun Company, Inc. (98.1%)
<b>1979 Sales:</b>	\$730,400,000.
<b>Subsidiary Companies:</b>	Albersun Pipeline Ltd. Baron Petroleums Inc. Gow Fuels Inc. Ouimet-Gobeille Inc. SMS Petroleums Ltd. Sun Explorations of Quebec Ltd. Sunoco Home Comfort Inc. Sunoco Inc. Chemsun Inc.
<b>Principal Investments:</b>	Sun-Canadian Pipe Line Company Limited (55%).

#### *Key Petroleum Statistics: 1979*

<b>Gross production of crude oil and natural gas liquids:</b>	17,000 barrels per day
<b>Gross production of natural gas:</b>	64 million cubic feet per day
<b>Gross production of synthetic crude oil:</b>	43,000 barrels per day
<b>Crude oil processed:</b>	77,000 barrels per day
<b>Petroleum product sales:</b>	74,000 barrels per day

**Corporate History:** The Sun Company of Canada, Ltd. (Sun) was formed in 1919 to market petroleum products in eastern Canada. In 1935 the company built a refinery in Sarnia, Ontario to supply its Ontario and Quebec



distributors. In 1953 the company finished construction of the 200 mile 8-inch Sun Canadian Pipe Line which extends from Sarnia to Toronto and carries petroleum products from the Sarnia area to London, Hamilton and Toronto.

Since the late 1960s, Sun has played a leading role in the commercial production of synthetic crude oil. In 1964, the Alberta Oil and Gas Conservation Board approved the application of Great Canadian Oil Sands (formed in 1953), a Sun subsidiary, to produce synthetic crude from the Athabasca Tar Sands. Extraction and processing facilities were completed in mid-1967 and test operations commenced on September 30, 1967. By 1979 the company was producing 43,000 barrels per day of synthetic crude oil.

In 1974, Sun Oil Company Limited was re-organized to consolidate the Canadian operations of Sun Company Inc.

In August 1979, Suncor Inc. was formed by amalgamation of Great Canadian Oil Sands Limited and Sun Oil Company Limited.

Today the company owns and operates a refinery in Sarnia, Ontario and markets its petroleum products in southern Ontario and southern Quebec through approximately 900 service stations, 20 subsidiary companies, and 100 independent branded and unbranded distributors.

**Officers:**

R.A. Hennigar, President  
S.A. Cowtan, Executive  
Vice-President  
W.R. Loar, Executive Vice-President  
F.A. Bain, Vice-President  
Technology  
G.H. Brereton, Vice-President  
Refining  
J.S. Camp, Vice-President Oil Sands  
Division  
D.A. Smith, Vice-President  
Exploration Division  
W.N. Turner, Vice-President  
Production Division  
A.S. Kingsmill, Secretary

**Texaco Canada Inc.**

**Head Office:**

90 Wynford Drive,  
Don Mills, Ontario.  
M3C 1K5

<b>Principal Business:</b>	Marketing, refining, transportation of and exploration for crude oil and natural gas in Canada.
<b>Major Shareholder:</b>	Texaco Inc. (90.5%)
<b>1979 Sales:</b>	\$2,638,623,000.
<b>Subsidiary Companies:</b>	Texaco Canada Resources Ltd. The Great Eastern Oil & Import Co. Limited Regent Refining (Canada) Limited Tolhurst Petroleum Ltd. Oilship Limited Independent Petroleum (1970) Ltd. Chartier Petroleum Ltd. McColl-Frontenac Oil Co. Ltd. Lowry Fuels Limited Public Fuel Transmission Systems Limited
<b>Principal Investments:</b>	Federated Pipe Lines Ltd. (50%) Trans-Northern Pipe Line Company (33%) Alberta Products Pipe Line Ltd. (20%) Montreal Pipe Line Company Limited (16%)

*Key Petroleum Statistics: 1979*

<b>Gross production of crude oil and natural gas liquids:</b>	168,000 barrels per day
<b>Refinery runs:</b>	194,000 barrels per day
<b>Petroleum product sales:</b>	207,000 barrels per day
<b>Exploration land holdings:</b>	17 million acres

**Corporate History:** The forerunner of Texaco Canada Limited was a partnership formed in 1873 by two businessmen named McColl and Andersen. In 1918, the company became McColl Brothers, Limited and was by 1925 one

of Ontario's leading petroleum marketers with a refinery and lubricating oil and grease making facilities in Toronto.

In 1927, the McColl Brothers merged with Frontenac Oil Refineries Ltd., which had been put together in 1925 from the bankrupt Nation's Oil Refineries, Ltd. of Montreal. The new company was called McColl-Frontenac Oil Company Limited. Crude oil supply was provided by production in Trinidad through a wholly-owned subsidiary, Antilles Petroleum Co. In 1929, McColl-Frontenac acquired the Perfection Petroleum Company of Toronto. By 1930 McColl-Frontenac had a 3,000 barrel per day refinery in Toronto, a 5,000 barrel per day refinery in Montreal and gasoline marketing interests in Quebec, Ontario and Winnipeg. Lubricants were marketed across Canada under the brand name "Red Indian".

The depression left McColl-Frontenac in financial difficulty and in 1936 The Texas Corporation (now, Texaco Inc.) began buying shares in the company. In June 1938, Texas Corporation elected its own board of directors for McColl-Frontenac based on its 35 percent ownership in the company. Shortly, thereafter, further shares of McColl-Frontenac were issued to the U.S. firm to acquire the assets of the Texas Company of Canada Limited, which had begun marketing petroleum products in western Canada. Empire Oil Co. of Winnipeg was acquired about the same time.

McColl-Frontenac was now marketing petroleum products across the country through some 4,000 retail outlets, of which 85 percent were owned by others.

McColl-Frontenac made sporadic attempts at exploration in western Canada between the time the Texas Corporation gained control in 1938 and the Leduc strike in 1947. In 1948 Texas Corporation formed Texaco Exploration Co. as its exploration arm in Canada. The latter company purchased McColl-Frontenac's oil and gas rights as well as certain production assets. In 1954, when McColl-Frontenac renewed its own exploration and production program in the west, it entered into a working agreement with Texaco Exploration.

In eastern Canada, a pipeline from Portland, Maine to the Montreal East refining area had begun pumping crude in 1941 and in 1946 McColl-Frontenac purchased 20 percent of the pipeline. This figure was later reduced to 16 percent.

In 1957, McColl-Frontenac acquired Regent Refining, a subsidiary of Trinidad Leaseholds Ltd., which had been purchased by the Texas Corporation the previous year. In return, Texas Corporation received a block of shares in McColl-Frontenac, further increasing its ownership in the company.

Two years later, McColl-Frontenac changed its name to Texaco Canada Limited. In addition to controlling Texaco Canada (in which it has a 68 percent interest), Texaco Inc. wholly-owned Texaco Exploration Canada Ltd. The latter company produced four times as much oil in western Canada as Texaco Canada.



In June 1978, Texaco Canada Limited and Texaco Exploration Canada Ltd. were amalgamated to form Texaco Canada Inc.

Today the company owns and operates refineries in Nanticoke, Ontario; Montreal; Edmonton; and Halifax. Products are sold in all provinces of Canada through some 3000 service stations as well as bulk stations and agents.

**Officers:**

R.W. Sparks, Chairman  
R.B. Palmer, President  
J.L. Morrison, Executive  
Vice-President  
J.E. Brazell, Executive  
Vice-President  
O.C. Cleyn, Vice-President Eastern  
Canada and Region Manager  
N.E. Taylor, Vice-President and  
General Manager Marketing  
J.M. Murray, Vice-President and  
General Manager Refining  
A.G. Galipeault, Vice-President and  
General Counsel  
E.J. Little, Secretary

**Turbo Resources Limited**

**Head Office:**

1019-7th Ave. S.W.,  
Calgary, Alberta.  
T2P 1A8

**Principal Business:**

Marketing, refining,  
transportation, exploration and  
development of oil and natural gas  
in Canada.

**Major Shareholder:**

Liberty Holdings & Industries Ltd.  
(23%) and R.G. Brawn (12%)

**1979 Sales:**

\$238,170,000.

**Subsidiary Companies:**

Branco Industries  
British American Chemical Co. Ltd.  
Challenger International Services  
Ltd.  
Dena Drilling  
Freeway Petroleum Transport Ltd.

Freeway Transport Ltd.  
Pay-N-Save Petroleums Ltd.  
Parkland Oil Products Ltd.  
Petroleum Marketers (Red Ram) Ltd.  
Stop-N-Save Petroleums Ltd.  
Turbo Refineries Ltd.  
Turbo Resources Inc.  
Twin Oils Ltd.  
Upper Canada Resources Ltd.  
Velvet Oil

**Principal Investments:**

Bankeno Mines Ltd. (25%)  
Queenston Gold Mines Ltd. (45%)

**Corporate History:**

Leduc Calmar Oil Company Limited was incorporated in Alberta on December 24, 1947. Thereafter and until August 1970 the company was principally an oil exploration company. On July 23, 1970 the company's name was changed to Liberty Resources Limited. On November 30, 1970 the company acquired all outstanding shares of Turbo Oil Ltd. which was engaged in the re-refining, blending and packaging of petroleum products. Turbo's operations continued as Turbo Refineries Ltd. and thereafter as Turbo Refineries division.

On June 1, 1971 Liberty Resources acquired Parkland Oil Products Ltd. Operations continued as Turbo Properties Ltd. and thereafter as Turbo Properties division.

On August 30, 1971 the company's name was changed to Turbo Resources Limited.

On December 12, 1972 the company acquired a 60.5 percent equity interest in Twin Richfield Oils Ltd., Twin Richfield's 57 percent owned subsidiary, Golden Spike Western Petroleums Ltd., and Golden Spike's wholly-owned subsidiary, Twin Oils Ltd. These companies were engaged in oil and gas exploration at the time. Twin Richfield was sold in 1977.

During 1973, the company acquired all outstanding shares of Twin Oils Ltd. from Oilex Industries Ltd. (formerly Golden Spike Western Petroleums Ltd.). The company also relinquished control of Oilex Industries Ltd. and purchased all oil and gas properties from its subsidiary companies.

In October 1976, Turbo acquired from Twin Richfield 42.7 percent of the shares of Oilex Industries Ltd. of Calgary, engaged in oil field exploration services and the construction business.

In July 1977, the company acquired Petroleum Marketers (Red Ram) Ltd., an Edmonton-based marketer of lubricants and greases.

In May 1979, the company sold all its interest in Oilex Industries Ltd.

In May 1980, Turbo acquired the Ontario Division gasoline marketing assets of Spur Oil Ltd., a subsidiary of Murphy Oil Ltd.

At the present time Turbo markets petroleum products in Ontario, Alberta, Saskatchewan, British Columbia, Manitoba and the Northwest Territories. In 1979 the Company sold over 126 million gallons of gasoline through 220 outlets. The firm is also engaged in exploration development, the transportation of oil and natural gas products, and the recycling of waste lubricants. By way of its subsidiary, Challenger International, Turbo also engages in oil and gas drilling and servicing oil field supply sales, and the manufacture of specialty rigs and drilling tools on both a national and international level. The company also operates five blending and packaging plants, and one oil recycling refinery in Canada. An oil refinery was to begin construction in Alberta in 1980, to come on stream in 1982.

**Officers:**

V.K. Travis, Chairman  
 R.G. Brown, President  
 F.W. King, Senior Vice-President  
 Manufacturing  
 R.H. Allen, Senior Vice-President  
 Resources Service  
 J.G. Pashniak, Vice-President  
 Production  
 J.F. Moore, Secretary

**Ultramar Canada Inc.**

**Head Office:**

50/52 Ashwarren Road,  
 Downsview, Ontario.  
 M3J 1Z5

**Principal Business:**

Marketing, refining, transportation  
 of and exploration for crude oil  
 and natural gas in Canada.

**Major Shareholder:**

Ultramar Company Limited, U.K.  
 (100%)

**Subsidiary Companies:**

Arrow Petroleums Limited  
 Golden Eagle Oil & Gas Limited  
 Canadian Fuel Marketers Ltd.  
 Ultramar Ontario Limited  
 Golden Eagle Canada Limited



Budget Fuels (1977) Inc.  
Cornwall Petroleum Ltd.  
Gervais Petroleum Ltd.  
Huiles Richelieu Inc.  
McGuire Fuels Ltd.  
Oceanic Tankers Agency Ltd.  
Les Petroles Saguenay Ltée  
Val D'or Gas Bar Inc.  
Alberta Fuels Ltd.  
Neal Petroleum Company Limited  
Neal Oil Co. Ltd.  
Neal Petroleums Inc.  
Tormont Petroleum Products Ltd.

**Corporate History:** Ultramar Canada Inc. is a federally incorporated company with its head office located in Montreal. The company manages and co-ordinates the activities of all Ultramar companies located in Canada. Activities in Canada commenced in 1952 with the establishment of a small exploration company in Calgary. This was an action related to a need for geographic diversification from their main operations in Venezuela. The Canadian operations were expanded in the early 1960's with the construction of a small refinery in Newfoundland, and the establishment of marketing and distribution facilities throughout Newfoundland, and afterwards in the provinces of Ontario and Quebec.

Subsequent expansion of their market enabled the company to construct their Quebec City refinery which came on stream in September of 1971. This refinery's output of heavy fuel oil was originally slated for shipment to the East Coast of the United States under term contracts with power and utility companies. After two years, however, the international oil crisis of 1973 caused the Canadian Government to impose restrictions on the exportation of refined products. Since that time, Ultramar has found it uneconomical to export heavy fuel oil so that even though Ultramar's heavy fuel oil sales in Canada have increased substantially, their Quebec City refinery has operated at less than capacity.

In order to acquire a larger share of the market in eastern Canada, Ultramar acquired Canadian Fuel Marketers Ltd. (CFM) on January 31, 1979. This acquisition doubled the market share of Ultramar and, it was hoped, ensured outlets for their refinery production. They estimated that they would be able to make higher refinery runs with more heavy fuel oil output allowing crude oil running plans to be optimized. CFM sells heating oil, gasoline, asphalt and residual fuel in Ontario and Quebec.

The Ultramar group's interests in Canada, prior to the acquisition of Canadian Fuel Marketers, consisted of oil and gas reserves in western Canada which yield 1500 barrels per day of oil and 10,000 M.C.F. per day of natural gas. The refineries in Quebec and Newfoundland have a combined rated capacity of 114,000 barrels per day. Ultramar's network of retail outlets and heating oil distribution units which market gasoline and heating oil make use of Ultramar, Golden Eagle and Arrow as principal brand names.

**Officers:**

L. Bensen, Chairman  
D.H. Austin, Vice-Chairman  
L.D. Woodruff, President  
J. Allan, Executive Vice-President  
M. Bayer, Vice-President Finance  
and Secretary  
P. Maitland, Vice-President  
Marketing

## **APPENDIX C**

### **Investigations of the Canadian Petroleum Industry**





## Investigations of the Canadian Petroleum Industry

### Under the *Combines Investigation Act*

Over the years the Director of Investigation and Research has received many complaints about practices and conditions in the petroleum industry. A number of these complaints led to formal inquiries, some of which resulted in Reports by the Restrictive Trade Practices Commission and prosecutions. These inquiries and Reports were generally restricted to the examination of specific practices or situations relating to particular products or within a particular geographic market within Canada.

Following is a list of Reports issued by the Restrictive Trade Practices Commission which have dealt with various aspects of the Canadian petroleum industry, along with a brief description of each, and a list of references in the Annual Reports of the Director of Investigation and Research to inquiries conducted by the Director into the industry since 1952.

1) On February 16, 1954, the Restrictive Trade Practices Commission released a *Report Concerning an Alleged Combine in the Distribution and Sale of Gasoline at Retail in the Vancouver Area* (RTPC #A-31) in which consideration was given to an allegation by the Director that the Retail Merchants Association of Canada, the Automotive Retailers Association, Standard Oil Company of British Columbia Limited, and thirty-eight individuals were parties to a combine in the sale of gasoline at the retail level in the Vancouver area. The Commission found that the arrangement under inquiry did and was likely to continue to operate against the interest and to the detriment of the public, and, in accordance with its usual practice, recommended that a judicial restraining order be sought preventing the continuation of the practice, but in so doing observed that the Standard Oil Company of British Columbia Limited appeared not to be involved in the arrangement.

Subsequently, three charges for violations under the *Combines Investigation Act* were laid against the two associations and some thirty retailers. One association pleaded guilty to all three charges, and, after trial, the other association and twenty-six retailers were found guilty on two counts and acquitted on the third. Defence counsel appealed to the British Columbia Court of Appeal on the grounds of mis-direction of the jury by the court, and was successful. The Crown then applied to the Supreme Court of Canada for leave to appeal, but was refused. The Crown chose not to apply for a new trial, insofar as the arrangement at issue had been discontinued and competition had been restored in the Vancouver market.

2) *A Report Concerning Alleged Attempts at Resale Price Maintenance in the Distribution and Sale of Gasoline in the Toronto Area* (RTPC #5) was released by the Restrictive Trade Practices Commission on February 25,

1960. It considered allegations of resale price maintenance against the British American Oil Company.

The issue centred on British American Oil's policy of not allowing service station operators whose premises were leased from the company to erect signs on the station property displaying the retail price of gasoline. This rule was relaxed during price wars and signs then were tolerated, and occasionally encouraged. Immediately upon the cessation of a price war, however, British American Oil would request the removal of the signs. It was alleged that this practice constituted an attempt at resale price maintenance, insofar as after the company deemed a price war over and the prevailing prices as being normal, the consequent forced removal of the signs also removed any incentive for the retailers to lower their prices. The Commission concluded that the policy was contrary to the resale price maintenance provisions of the *Combines Investigation Act* in that it created an inducement to the service station operators to resell gasoline at not less than the price designated by British American Oil as being the prevailing or normal price.

Two charges under the Act were laid against the British American Oil Company in Toronto, but the company was acquitted on March 10, 1961.

3) The Restrictive Trade Practices Commission, in its *Report Concerning the Distribution and Sale of Gasoline in the Toronto Area (Alleged Price Discrimination — Supertest Petroleum Corporation, Limited)* (RTPC #13), released on April 11, 1961, considered a situation where Supertest was offering a temporary competitive allowance during a price war to a dealer when a competing dealer was not receiving the allowance. Also at issue was the fact that the competing dealer was enjoying a continuous two cent per gallon price advantage from Supertest over the other dealer, irrespective of the influence of price wars.

The Commission concluded that the granting of the temporary allowance was an expedient designed to assist the dealer in confronting a severe, local competitive situation and did not amount to a discriminatory policy. However, on the matter of the continuous price advantage afforded the other dealer, the Commission was of the opinion that the practice constituted a form of price discrimination, and recommended that a court order be sought prohibiting its continuance. After consideration by counsel of the evidence, no legal proceedings were instituted.

4) On April 12, 1961, the Restrictive Trade Practices Commission released a *Report Concerning the Distribution and Sale of Gasoline in the Toronto Area (Alleged Price Discrimination — The British American Oil Company Limited)* (RTPC #14). The issues involved in this inquiry were materially the same as those considered in the Report just described, and the Commission arrived at similar conclusions. No legal proceedings were begun, after consideration by counsel of the weight of the evidence.



5) The issue of temporary competitive allowances being offered selected dealers during price wars was again addressed by the Restrictive Trade Practices Commission in its *Report Concerning the Distribution and Sale of Gasoline in the Toronto Area (Alleged Price Discrimination — Texaco Canada Limited)* (RTPC #12), published on April 28, 1961, and again it was the Commission's opinion that the policy did not constitute a practice of discriminating in price between the two dealers in question within the meaning of the Act.

6) On March 23, 1962, the Restrictive Trade Practices Commission released a *Report on an Inquiry into the Distribution and Sale of Automotive Oils, Greases, Anti-Freeze, Additives, Tires, Batteries, Accessories, and Related Products* (RTPC #18). The Report generally known as the T.B.A. (Tires, Batteries and Accessories) Report was based on a Green Book submitted to the Commission by the Director of Investigation and Research detailing the results of a general inquiry conducted under the then Section 42 of the *Combines Investigation Act*. The purpose of the inquiry was to consider the effects on the economy and on the consuming public of the policies of full line forcing, directed buying, and exclusive dealing which were characteristic of the distribution of various products and accessories marketed in service stations throughout the country. Evidence was called from a number of companies and associations within the industry. In its report, the Commission recommended that these and related policies be defined within the *Combines Investigation Act* and that they should be prohibited where they are found likely to lessen competition substantially, to create a monopoly, or to exclude competitors from the market to any significant degree, as it was the conclusion of the Commission that such policies do not result in the benefits to the public which could be expected under normal competitive marketing of a non-exclusionary character. Consideration of the recommendations of the Commission in the T.B.A. Report led to amendments in the *Combines Investigation Act* in 1976 that authorized the Commission to review certain exclusive dealing, tied selling and market restriction practices and to make remedial orders.

7) On June 27, 1966, the Restrictive Trade Practices Commission published a *Report Relating to the Distribution and Sale of Gasoline in the City of Winnipeg and Elsewhere in the Province of Manitoba* (RTPC #40) which described the results of an inquiry into certain marketing practices of North Star Oil, a division of Shell Oil. Certain of North Star's dealers, faced with aggressive competition from independent service stations, were placed on consignment and made into sales agents for North Star and were paid a commission which remained stable despite fluctuations in the retail prices which were set by North Star. It was alleged by the Director of Investigation and Research that, notwithstanding the formal designation of the retail operators as consignment agents, they were still in effect purchasers/resellers and that the

new arrangement was a continuance designed to circumvent the resale price maintenance provisions of the Act.

The Commission concluded that, because of the absence of a purchaser/reseller relationship, the North Star and Shell consignment arrangements did not constitute resale price maintenance within the meaning of the Act, but added that although the letter of the Act had not been violated, its spirit and intent had, in that the arrangements had stifled competition at the retail level and were thus detrimental to the public interest.

8) On July 15, 1969, the Restrictive Trade Practices Commission released a *Report in the Matter of an Inquiry Relating to the Distribution and Sale of Gasoline and Related Products in the Sudbury Area* (RTPC #48) which considered an incident where members of the Superior Auto Service Association, an association of service station operators in the Sudbury area, had picketed the premises of two company-owned-and-operated service stations of Imperial Oil Limited which were operating on a commission basis and which had not followed a price increase initiated by members of the association.

The Commission found that although concerted action on the part of association members had been taken to increase prices, this action had its basis in the amount of control exercised by various petroleum companies over their dealers, particularly by way of the system of consignment selling, and that the association members were attempting by their actions to remove the control over prices exercised by the petroleum companies. The Commission concluded that under these circumstances prosecution would be inappropriate, but recommended that a restraining order be sought prohibiting the repetition of any concerted action designed to control the retail price of gasoline.

Inquiries into the Canadian petroleum industry reported in the Annual Reports of the Director of Investigation and Research since 1952:

<i>Report</i>	<i>Case Title</i>	<i>Page Reference</i>	<i>Issue</i>
1952	Gasoline-Manitoba	p. 22	Conspiracy
1953	Gasoline-Ontario	p. 27	Conspiracy
1955	Gasoline-Ontario	p. 46	Conspiracy
1960	Gasoline-Ottawa	p. 23	Price Discrimination
	Gasoline-Peterborough	p. 23	Price Discrimination and Conspiracy
	Gasoline-Winnipeg	p. 24	Price Discrimination, Conspiracy and Predatory Pricing
	Gasoline-Niagara Falls-St. Catharines	p. 25	Price Discrimination
	Gasoline-Shawinigan	p. 26	Price Discrimination and Conspiracy
1961	Gasoline-Toronto	p. 27	Price Discrimination
	Gasoline-Ottawa	p. 31	Price Discrimination
	Gasoline-Northern Ontario	p. 36	Resale Price Maintenance

<i>Report</i>	<i>Case Title</i>	<i>Page Reference</i>	<i>Issue</i>
1962	Various complaints alleging price discrimination in the sale of gasoline	p. 19	Price Discrimination
	Bulk Products-Northern Ontario	p. 25	Price Discrimination
1963	Fuel Oil and Gasoline Quebec	p. 21	Conspiracy
	Gasoline-British Columbia	p. 22	Conspiracy
1964	Gasoline-Winnipeg and Vancouver areas	p. 26	Conspiracy
	Gasoline-Ontario	p. 51	Price Discrimination
1965	Gasoline-Maritimes	p. 66	Resale Price Maintenance
1967	Gasoline	p. 75	Resale Price Maintenance
1969	Gasoline-Sudbury	p. 47	Conspiracy
1971	Gasoline	p. 65	Resale Price Maintenance
1972	Gasoline-Nova Scotia	p. 22	Conspiracy
	Gasoline-Brantford	p. 26	Conspiracy
	Gasoline	p. 31	Merger
	Gasoline-London	p. 45	Price Discrimination
	Gasoline-Sudbury	p. 47	Resale Price Maintenance
	Gasoline-Peterborough	p. 48	Resale Price Maintenance
1973	Gasoline-Oshawa	p. 40	Conspiracy
	Gasoline-Sudbury	p. 41	Conspiracy
	Gasoline-Sarnia	p. 44	Conspiracy
	Gasoline-Moncton	p. 63	Price Discrimination
	Gasoline-Sarnia	p. 63	Price Discrimination
	Gasoline-Windsor	p. 64	Resale Price Maintenance
	Gasoline-Sudbury	p. 65	Resale Price Maintenance
	Gasoline-Winnipeg	p. 65	Resale Price Maintenance
1974	Gasoline-Sudbury	p. 46	Resale Price Maintenance
1975	Gasoline-Montreal and Laval	p. 29	Conspiracy
	Gasoline-Vernon, B.C.	p. 43	Predatory Pricing
	Gasoline-Sudbury	p. 43	Resale Price Maintenance
1976	Gasoline-Ganonoque, Ont.	p. 31	Conspiracy
1977	Gasoline-Castlegar, B.C.	p. 30	Conspiracy
	Gasoline-New Brunswick	p. 34	Conspiracy
1978	Gasoline-Castlegar, B.C.	p. 43	Conspiracy
1979	Gasoline-Sydney, N.S.	p. 57	Conspiracy
	Gasoline-Southwestern Ontario	p. 57	Resale Price Maintenance
1980	Fuel Oil-Prince George, B.C.	p. 51	Refusal to Supply
	Gasoline-Quebec	p. 46	Refusal to Supply
	Gasoline-Sydney, N.S.	p. 44	Conspiracy
	Gasoline-Southwestern Ontario	p. 45	Resale Price Maintenance





## **APPENDIX D**

### *List of Premises Searched and Documents Seized*





### *List of Premises Searched and Documents Seized*

The following is a list of companies that were searched and from which documents were seized pursuant to Section 10 of the *Combines Investigation Act* in the course of the inquiry commenced in August, 1973 pursuant to Section 8 of the Act. The company names in this list are the names of the firms at the time of the search and document seizure.

Company	Premises Identification Code	Serial Numbers	Date of Seizure
Irving Oil Company, Limited, Golden Ball Building, Sydney Street and Union Street, Saint John, New Brunswick	ACIR	001-2213	Aug. 30/73
Irving Oil Company, Limited, Golden Ball Building, On Behalf of Engineering Consultants Limited, Saint John, New Brunswick	ADAR	2214-2297	Aug. 31/73
Interprovincial Pipe Line Limited, King Street East, Suite 901, Toronto, Ontario	ADAO	2298-5538	Aug. 30/73
Petrofina Canada Limited, Place Ville Marie, Montreal, Quebec	ACET	5539-6530	Sept. 5/73
Texaco Canada Limited, 1425 Mountain Street, Montreal, Quebec	ACFP	6531-8995	Sept. 6/73
BP Oil Limited, 1980 Sherbrooke Street West, Montreal, Quebec	ACFS	8996-9087	Sept. 7/73
BP Oil Limited, 1235 Ducharme Avenue, Outremount, Montreal, Quebec	ACGM	9088-9295	Sept. 7/73
BP Canada Limited, BP Oil Limited, BP Refinery Canada Limited, 1245 Sherbrooke Street West, Montreal, Quebec	ACGK	9296-11705	Sept. 7/73
Interprovincial Pipe Line Limited, 10015 — 103 Avenue, Edmonton, Alberta	ACHT	11706-13073	Sept. 11/73
Hudson's Bay Oil and Gas Company Limited, 320 — 7th Avenue S.W., Calgary, Alberta	ACHP	13074-1688	Sept. 10/73
Mobil Oil Canada, Ltd. Mobil Tower, Calgary Place, 330 — 5th Avenue S.W., Calgary, Alberta	ACGR	16881-21156	Sept. 13/73
BP Canada Limited, 1245 Sherbrooke Street West, Montreal, Quebec	ABGP	21157-21166	Sept. 26/73

Company	Premises Identification Code	Serial Numbers	Date of Seizure
Shell Canada Limited, 505 University Avenue, Toronto, Ontario; Returned to	ACJO	21167-45587	Sept. 28/73
Shell Canada Because of Privilege	—	45588-45599	—
Texaco Canada, Limited, 90 Wynford Drive, Don Mills, Ontario	ACJT	45600-58307	Sept. 27/73
Texaco Canada, Limited (Ontario Division), 90 Wynford Drive, Don Mills, Ontario	ACJR	58308-58545	Sept. 27/73
Shell Canada Limited, 75 Wynford Drive, Don Mills, Ontario	ACJS	58546-58979	Sept. 28/73
Gulf Oil Canada Limited, 800 Bay Street, Toronto, Ontario	ACJM	58980-81248	Sept. 28/73
Sun Oil Company, Limited and Great Canadian Oil Sands Limited, 56 Wellesley Street West, Toronto, Ontario	ADAM	81249-88390	Sept. 28/73
Imperial Oil Limited, 111 St. Clair Avenue West, Toronto, Ontario	ACJL	88391-110391	Oct. 12/73
Imperial Oil Limited, 111 St. Clair Avenue West, Toronto, Ontario	ACJK	110392-135737	Oct. 12/73
Texaco Exploration Canada Ltd., 600 — 6th Avenue S.W., Calgary, Alberta	AFAL	135738-136063	Dec. 5/74
Shell Canada Limited, 1027 — 8th Ave. S.W., Calgary, Alberta	AFAO	136064-136075	Dec. 6/74
Shell Canada Limited, 639 — 5th Avenue S.W., Calgary, Alberta	AFAN	136076-136416	Dec. 5/74
Sun Oil Company of Canada Limited, 500 — 4th Avenue S.W., Calgary, Alberta	AEJT	136417-136442	Dec. 3/74
BP Oil Limited/ BP Petroles Limitée, 335 — 8th Avenue S.W., Calgary, Alberta	AFCO	136443-136492	Dec. 4/74
Gulf Oil Canada Limited, 615 — 2nd Street S.W., Calgary, Alberta	AEJR	136493-137675	Dec. 5/74
Gibson Petroleum Company Limited, 1020 Elvedeen House, 717 — 7th Avenue S.W., Calgary, Alberta	AFBN	136676-137913	Dec. 4/74
Ashland Oil Canada Limited, Suite 1800, 639 — 5th Avenue S.W., Calgary, Alberta	AFBT	137914-138126	Dec. 7/74

Company	Premises Identification Code	Serial Numbers	Date of Seizure
Husky Oil Ltd., 815 — 6th Street S.W., Calgary, Alberta	AFBK	138127-138945	Dec. 6/74
Murphy Oil Company Ltd., 700 Aquitaine Tower, 540 — 5th Avenue S.W., Calgary, Alberta	AFCM	138946-138992	Dec. 4/74
Gulf Oil Canada Limited, 615 — 2nd Street S.W., Calgary, Alberta	AEJS	138993-139115	Dec. 5/74
Imperial Oil Limited, 500 — 4th Ave. S.W., Calgary, Alberta	AFAP	139116-139851	Dec. 5/74
Imperial Oil Limited, 339 — 50th Ave. S.E., Calgary, Alberta	AFAR	139852-139993	Dec. 5/74
Imperial Oil Limited, Imperial Oil Building, 10025 Jasper Avenue, Edmonton, Alberta	AFAS	139994-140651	Dec. 6/74





## **APPENDIX E**

**Acquisitions by Imperial, Shell, Gulf, and Texaco**





Imperial Canada Limited — Profile of Acquisitions

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
February 16, 1950	Aquila Petroleum Ltd.	Alberta	
May 6, 1950	Winnipeg Pipe Line Company Limited	Gretna-Winnipeg, Manitoba	Crude Oil Transportation Pipeline
May 26, 1952	Redwater Water Disposal Company Limited		
July 17, 1953	Nisku Products Pipe Line Company Limited	Devon-Edmonton, Alberta	Liquefied Petroleum Gas, Natural Gasoline Transportation Pipeline
April 8, 1954	Alberta Gas Trunk Line Company Limited	Alberta	Natural Gas Transportation Pipeline
May 18, 1954	Lowlands Exploration Limited	Quebec	Exploration
July 21, 1955	Caribbean Oil and Transport Ltd.		
October 31, 1955	Oval Natural Gas Company Limited		
January 19, 1956	Chatlon Oil and Gas Company Limited		
January 25, 1956	Eron Oil and Gas Company Limited		
September 10, 1956	Stanmount Pipe Line Company		
December 8, 1956	Portland Pipe Line Corporation	Portland, Maine-Montreal, Quebec	Crude Oil Transportation Pipeline
March 28, 1957	Seaway Bunkers Limited		
April 1, 1958	Smiley Gas Conservation Limited	Saskatchewan	
January 19, 1959	Nottingham Gas Limited		
January 29, 1959	Carnduff Gas Limited	Carnduff, Saskatchewan	Gas Gathering System
March 17, 1959	James Murphy Fuel Oil Company Limited	Thunder Bay, Ontario	Marketing Fuel Oil, Petroleum Products
July 15, 1959	Mongeau & Robert Cié. Ltée.	Montreal, Quebec	Marketing Fuel Oil, Petroleum Products
	Monroe Ltée.	Montreal, Quebec	Marketing Fuel Oil, Petroleum Products
July 15, 1960	W.H. Adam, Ltée., Ltd.	Sherbrooke, Quebec	Marketing Fuel Oil
November 1, 1961	Porcupine Oil Company Limited	Timmins, Ontario	Marketing Gasoline, Fuel Oil
July 18, 1963	Bourque Brothers Limited	Ottawa, Ontario	Marketing Fuel Oil, Heating Equipment

## Imperial Canada Limited — Profile of Acquisitions

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
December 5, 1963	Servacar Ltd.	Canada	Marketing Gasoline, Auto Products
December 20, 1963	Tecumseh Gas Storage Limited	Southern Ontario	Underground Gas Storage
June 30, 1964	Corry Coal and Oil Ltd.	Vancouver, British Columbia	Marketing Fuel Oil, Coal
July 17, 1964	Centres Citadelle Ltée/Citadel Centres Ltd. <sup>(1)</sup>	Montreal, Quebec	Marketing Gasoline
July 22, 1964	Mitsue Pipe Line Ltd. <sup>(2)</sup>	Alberta	Crude Oil Transportation Pipeline
July 28, 1964	Imperial Oil Developments Limited	Alberta, Saskatchewan	Exploration & Development
September 1, 1964	J. Ray McDermott and Co. Ltd. <sup>(3)</sup>	Alberta, Saskatchewan	Crude Oil, Natural Gas Production
November 27, 1964	Imperial Oil of Canada Shipping Company Limited	Canada	Crude Oil Transportation
January 14, 1965	Syncrude Canada Ltd.	Alberta	Tar Sands Research & Recovery
May 3, 1965	Hall Fuel (1965) Limited	Ottawa, Ontario	Marketing Fuel Oil, Heating Equipment
October 29, 1965	Rainbow Pipe Line Company Ltd.	Alberta	Crude Oil Transportation Pipeline
January 6, 1966	ESF Limited	Canada	Marketing Gasoline, Fuel Oil etc.
August 31, 1967	Allied Heat and Fuel Limited	Vancouver, British Columbia	Marketing Fuel Oil, Heating Equipment
November 24, 1967	Albury Company Limited	Caribbean	Trading Company
March 28, 1968	Exploration St. Maurice Ltée <sup>(4)</sup>	Quebec	Mining & Exploration
August 15, 1969	MacKenzie Valley Pipeline Research Limited	Northwest Territories	Transportation Research
October 31, 1969	Lou's Service (Sault) Limited	Sault Ste. Marie, Ontario	Marketing Gasoline
September 30, 1970	Donat Grandmaître Limited	Ottawa, Ontario	Marketing Fuel Oil, Heating Equipment
June 23, 1971	Alberta Products Pipe Line Ltd.	Alberta	Product Transportation Pipeline

<sup>(1)</sup> Acquired through Champlain Oil Products Limited.<sup>(2)</sup> Acquired through Rainbow Pipe Line Company Ltd.<sup>(3)</sup> Acquired through Imperial Oil Developments Limited.<sup>(4)</sup> Acquired through Imperial Oil Enterprises Ltd.

<u>Imperial Canada Limited — Profile of Acquisitions</u>		
<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>
March 17, 1959	James Murphy Fuel Oil Company Limited	Ontario
November 1, 1961	Porcupine Oil Company Limited	Timmins, Ontario
July 18, 1963	Bourque Brothers Limited	Ottawa, Ontario
June 30, 1964	Corry Coal and Oil Ltd.	Vancouver, British Columbia
May 3, 1965	Hall Fuel (1965) Limited	Ottawa, Ontario
January 6, 1966	ESF Limited	Canada
August 31, 1967	Allied Heat and Fuel Limited	Vancouver, British Columbia
September 30, 1970	Donat Grandmaître Limited	Ottawa, Ontario
November 23, 1971	J.P. Papineau Ltée./Ltd.	Granby, Quebec
April 28, 1972	Archibald Fuel Limited	Halifax, Nova Scotia

Activities Engaged In



## Shell Canada Limited — Profile of Acquisitions

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
1957	Deep Sea Tankers Limited		Transportation
December, 1957	Peace Pipe Line Limited	Alberta	Crude Oil Transportation Pipeline
July, 1959	Carnduff Gas Limited	Carnduff, Saskatchewan	Gas Gathering System
January, 1960	North Star Oil Limited	Various	Refining, Marketing, Gasoline
	Peigan Oil of Canada Limited		
June, 1960	Trans-Northern Pipe Line Co.	Ontario-Quebec	Product Transportation Pipeline
August 18, 1961	Canadian Bishop Oil Limited	Alberta	Crude Oil/Natural Gas Production
December 7, 1961	Edwards Sudbury Ltd.	Sudbury, Ontario	Marketing Gasoline, Fuel Oil
January 17, 1962	C. Schneider & Company	Stratford, Ontario	Marketing Gasoline, Fuel Oil, Coal
March 19, 1962	Maurice Martin	Madoc, Ontario	Marketing Gasoline, Fuel Oil
September 19, 1962	Olson Oil Limited	Woodbridge, Ontario	Marketing Gasoline, Fuel Oil, Other
October 12, 1962	Canadian Oil Companies Limited <sup>(1)</sup>	Various	Refining, Marketing Petroleum Products
October 12, 1962	Sun-Canadian Pipelines Ltd.	Sarnia/Toronto-Hamilton	Product Transportation Pipeline
November 16, 1962	Streetsville Fuels Ltd.	Streetsville, Ontario	Marketing Gasoline, Fuel Oil, Other
1963	Aeroquay Services Limited	Toronto, Ontario	Marketing Gasoline
April 11, 1963	Finnie Fuels	Peterborough, Ontario	Marketing Gasoline, Fuel Oil
July 10, 1963	Philips Fuel Ltd.	Gatineau, Quebec	Marketing Gasoline, Fuel Oil, Other
October 25, 1963	James Buchanan	Willowdale, Ontario	Marketing Gasoline, Fuel Oil
January 6, 1964	Cliche & Dutil	Lac Megantic, Quebec	Marketing Gasoline, Fuel Oil
March 29, 1964	Adhemar Rainville	St. Jean, Quebec	Marketing Gasoline, Fuel Oil
April 1, 1964	Harold R. Baxter	Cobourg, Ontario	Marketing Gasoline, Fuel Oil
June 30, 1964	Howard Black Limited	Lindsay, Ontario	Marketing Fuel Oil, Dieselene, Other
July 24, 1964	O.J. Bertrand & Son Ltd.	Leamington, Ontario	Marketing Gasoline, Fuel Oil
August 6, 1964	C.R. McGlynn	Teeswater, Ontario	Marketing Gasoline, Fuel Oil, Other
March 17, 1965	Albert Hewitt	Hamilton, Ontario	Marketing Gasoline, Fuel Oil

<sup>(1)</sup> Acquired through Shell Investments Limited.

## Shell Canada Limited — Profile of Acquisitions

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
May 7, 1965	Alex Von Ploennies	Gravenhurst, Ontario	Marketing Gasoline, Fuel Oil, Other
October 4, 1965	Clare D. Fraser	Brantford, Ontario	Marketing Gasoline, Fuel Oil, Other
November 1, 1965	Jean Newton ("Newton Fuels")	New Liskeard, Ontario	Marketing Gasoline, Fuel Oil, Other
December 1, 1965	Donald McLellan	Brantford, Ontario	Marketing Gasoline, Fuel Oil, Other
December 1, 1965	Bradford Fertilizer & Chemical Company Limited	Brantford, Ontario	Marketing Fertilizer and Agricultural Chemicals
February 24, 1966	Total Fuels Ltd.	Summerside, P.E.I.	Marketing Gasoline, Fuel Oil, Other
February 28, 1966	City Gas Corporation, Limited	Quebec	Marketing Propane
	Citadelle Propane Inc.	Quebec	Marketing Propane
February 29, 1966	Kenneth V. Dawson	Leamington, Ontario	Marketing Gasoline, Fuel Oil
September 7, 1966	R. Thiessen	Vineland, Ontario	Marketing Gasoline, Fuel Oil
October 4, 1966	Glenn Lasby	Guelph, Ontario	Marketing Gasoline, Fuel Oil
October 4, 1966	James H. Oakes	Guelph, Ontario	Marketing Gasoline, Fuel Oil
November 1, 1966	Harry M. Gibson	Virgil, Ontario	Marketing Gasoline, Fuel Oil, Other
November 15, 1966	L.G. Phinney	Trenton, Ontario	Marketing Gasoline, Diesel Fuel
December 20, 1966	Tangal Limited Monarch Propane Gas Limited	Toronto, Ontario	
December 28, 1966	Mount McKay Feed Company Ltd.	Fort William, Ontario	Marketing Gasoline, Fuel Oil
January 15, 1967	Mathieu Inc.	Victoriaville, Quebec	Marketing Gasoline, Fuel Oil, Other
March 15, 1967	Davidson-Austin Petroleum Products Limited	Newmarket, Ontario	Marketing Gasoline, Fuel Oil
March 31, 1967	A. de Vleeschouwer	La Salette, Ontario	Marketing Gasoline, Fuel Oil
May 8, 1967	The Albert Quait Co. Ltd.	Thamesford, Ontario Ingersoll, Ontario	Marketing Gasoline, Fuel Oil, Other
June 15, 1967	A. Methot Inc.	Valleyfield, Quebec	Marketing Gasoline, Fuel Oil
September 14, 1967	Murdoch Fuels Ltd.	St. David's, Ontario	Marketing Gasoline, Fuel Oil, Other
September 15, 1967	Thomas Scarlett	Harriston, Ontario	Marketing Gasoline, Fuel Oil
September 15, 1967	Gordon Rabb	Harriston, Ontario	Marketing Gasoline, Fuel Oil, Other
September 25, 1967	Morley Jackson	Chatham, Ontario	Marketing Gasoline, Fuel Oil

## Shell Canada Limited — Profile of Acquisitions

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
September 25, 1967	Patrick Doughty	Chatham, Ontario	Marketing Gasoline, Fuel Oil
October 11, 1967	Y. Labelle	St. Jerome, Quebec	Marketing Gasoline, Fuel Oil, Other
October 24, 1967	Victor's Petroleum Reg'd.	Val d'Or, Quebec	Marketing Gasoline, Fuel Oil, Other
October 30, 1967	Milton J. Thomas	Elora, Ontario	Marketing Gasoline, Fuel Oil, Other
December 1, 1967	Burns McKenzie Fuels Ltd.	Tillsonbury, Ontario	Marketing Gasoline, Fuel Oil, Other
December 22, 1967	Edward Mitchell ("Mitchell Fuels")	Simcoe, Ontario	Marketing Gasoline, Fuel Oil, Other
December 29, 1967	Sorel Propane Gaz Ltée. <sup>(1)</sup>	Tracy, Quebec	Marketing Propane
January 19, 1968	O'Neill Fuels Ltd.	Markham, Ontario	Marketing Gasoline, Fuel Oil, Other
March 13, 1968	Frank Mills Ltd.	Alvinston, Ontario	Marketing Gasoline, Fuel Oil, Other
March 19, 1968	Don Gordon	Atwood, Ontario	Marketing Gasoline, Fuel Oil, Other
March 21, 1968	Cecil F. Reid ("Cecil Reid Fuels")	Belleville, Ontario	Marketing Gasoline, Fuel Oil, Other
April 15, 1968	Roy Huras	Sebringville, Ontario	Marketing Gasoline, Fuel Oil, Other
April 16, 1968	Delta Services Inc.	Sherbrooke, Quebec	Marketing Gasoline, Fuel Oil, Other
May 28, 1968	J.M. Wallace & Sons Ltd.	Midland, Ontario	Marketing Gasoline, Fuel Oil, Other
July 31, 1968	Country Propane Gas Ltd. <sup>(1)</sup>	Pointe-aux-Trembles, Quebec	Marketing Liquified Petroleum Gas
September 25, 1968	Lloyd Osborne	Chatham, Ontario	Marketing Gasoline, Fuel Oil
October 17, 1968	Cutler Fuels	Guelph, Ontario	Marketing Gasoline, Fuel Oil, Other
November 18, 1968	Beaver Oil Company	Windsor, Ontario	Marketing Gasoline
		London, Ontario	
December 4, 1968	C. Kropf ("Kropf Fuels")	Kitchener-Waterloo, Ontario	Marketing Gasoline, Fuel Oil, Other
December 4, 1968	Emil Royer	Warwick, Quebec	Marketing Gasoline, Fuel Oil, Other
March 13, 1969	C.W. Jessop	Schomberg, Ontario	Marketing Gasoline, Fuel Oil, Other
April 8, 1969	John S. Gray	Beeton, Ontario	Marketing Gasoline, Fuel Oil, Other
April 30, 1969	R.A. Carson & Son	Gorrie, Ontario	Marketing Gasoline, Fuel Oil, Other
September 30, 1969	J.F. McClintock	Kitchener, Ontario	Marketing Gasoline, Fuel Oil, Other
October 12, 1969	St. Pierre et Frère Cie. Ltée.	Trois-Rivières, Quebec	Marketing Gasoline, Fuel Oil

<sup>(1)</sup> Acquired through City Gas Corporation Ltd.



## Shell Canada Limited — Profile of Acquisitions

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
November 3, 1969	R.C. Barwise Limited	Charlottetown, P.E.I.	Marketing Gasoline, Fuel Oil, Other
November 3, 1969	John W. Skinner Limited	Murray Harbour, P.E.I.	Marketing Gasoline, Fuel Oil, Other
November 3, 1969	Keith Pearson ("Keith Pearson Fuels")	Woodstock, Ontario	Marketing Gasoline, Fuel Oil, Other
November 4, 1969	A. Freeman	Woodstock, Ontario	Marketing Gasoline, Fuel Oil, Other
December 22, 1969	Stormes Brothers Ltd.	Port Stanley, Ontario	Marketing Gasoline, Fuel Oil, Other
September 1, 1970	646 Royal York Road North Limited	Toronto, Ontario	Service Station
September 15, 1970	M.E. Snyder	Kitchener-Waterloo, Ontario	Marketing Gasoline, Fuel Oil, Other
October 2, 1970	Albert L. Thomas	Charlottetown, P.E.I.	Marketing Gasoline, Fuel Oil, Other
October 6, 1970	Pearson Bros. Ltd.	Bath, New Brunswick	Marketing Gasoline, Fuel Oil
October 16, 1970	H.D. Frank	Kitchener-Waterloo, Ontario	Marketing Gasoline, Fuel Oil, Other
November 30, 1970	J.B. Marshall ("Marshall Fuels")	Parry Sound, Ontario	Marketing Gasoline, Fuel Oil, Other
December 18, 1970	George Baldwin & Son Ltd.	Lindsay, Ontario	Marketing Gasoline, Fuel Oil, Other
February 26, 1971	Union Oil Limited	Halifax/Dartmouth, N.S.	Marketing Gasoline, Fuel Oil, Other
July 14, 1971	Vernet Still	Stoney Creek, Ontario	Marketing Gasoline, Fuel Oil, Other
November 12, 1971	Harry Williams ("Williams Fuels")	Clinton, Ontario	Marketing Gasoline, Fuel Oil, Other
January 20, 1972	Gaston McNeil	Lévis, Quebec	Marketing Gasoline, Fuel Oil, Other
January 28, 1972	Top-Notch Feeds, Limited	Milverton, Ontario	Marketing Gasoline, Fuel Oil, Other
April 30, 1972	A. Bourrassa Ltd.	Cloverdale, British Columbia	Marketing Gasoline, Fuel Oil, Fertilizer and Agricultural Chemicals
May 10, 1972	Alex Inkley	Clinton, Ontario	Marketing Fuel Oil, Diesel Fuel, Other
May 24, 1972	Jack Arthurs Agency	Harriston, Ontario	Marketing Gasoline, Fuel Oil, Other
August 12, 1972	Brown Fuel Company	Fonthill, Ontario	Marketing Gasoline, Fuel Oil, Other
November 28, 1972	Glen Scott Fuels Ltd.	Stittsville, Ontario	Marketing Gasoline, Fuel Oil, Other
December 13, 1972	Ronald W. Potter	Langton, Ontario	Marketing Gasoline, Fuel Oil, Other
January 30, 1973	Joseph R. Brown (Fuels) Ltd.	Dutton, Ontario	Marketing Gasoline, Fuel Oil, Other
February 15, 1973	J.P. St. Cyr	Joliette, Quebec	Marketing Gasoline, Fuel Oil

Shell Canada Limited — Profile of Acquisitions

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
March 26, 1973	Painter's Acme Fuel Ltd.	Victoria, British Columbia	Marketing Gasoline, Fuel Oil, Petroleum Products
April 13, 1973	Fred A. Fisk	Bowmanville, Ontario	Marketing Gasoline, Fuel Oil, Other
June 7, 1973	Douglas Brock Fuels	Arkona, Ontario	Marketing Gasoline, Fuel Oil, Other
June 27, 1973	Graham's Oil Delivery	Saint John, New Brunswick	Marketing Gasoline, Fuel Oil, Other
July 31, 1973	Donald Eddy	Scotland, Ontario	Marketing Gasoline, Fuel Oil, Other
July 31, 1973	Clarence Hearn	St. Thomas, Ontario	Marketing Gasoline, Fuel Oil, Other
May 30, 1974	Claud Fugaro	Aylmer, Ontario	Marketing Gasoline, Fuel Oil, Other
June 27, 1974	Russell C. Woosnam	Thorndale, Ontario	Marketing Gasoline, Fuel Oil, Other
April 28, 1975	Shade Bros. Distributors Ltd.	Victoria, British Columbia	Marketing Gasoline, Fuel Oil, Other
October 24, 1975	Jeffery C. Phillips Limited	Staffordville, Ontario	Marketing Gasoline, Fuel Oil, Other
December 22, 1975	R. Beauregard	St. Jean, Quebec	Marketing Gasoline, Fuel Oil
		Henryville, Farnham Quebec	
December 31, 1975	Romeo Doucet ("Doucet Fuels")	Bathurst, New Brunswick	Marketing Gasoline, Fuel Oil
February 4, 1976	Grant & McGaughey Stove & Fuel Oils	Woodstock, New Brunswick	Marketing Gasoline, Fuel Oil

Shell Canada Limited — Profile of Acquisitions

(Fuel Oil Marketers)

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
August 24, 1961	Bob Herbert Fuels Ltd. and/or Herbert Fuels Ltd. and/or Colbalt Distributors Ltd.	Haleybury, Ontario	
November 16, 1961	Welsh Fuel Co. Ltd.	Brantford, Ontario	
December 7, 1961	Edwards Sudbury Ltd.	Sudbury, Ontario	
January 17, 1962	C. Schneider & Company	Stratford, Ontario	
February 23, 1962	Lake Simcoe Ice and Fuel Ltd.	Toronto, Ontario	
March 19, 1962	Maurice Mastin	Madoc, Ontario	
July 31, 1962	Watkins-Wenram Fuel Co.	Vancouver, British Columbia	
September 19, 1962	Olson Oil Limited	Woodbridge, Ontario	
October 12, 1962	Canadian Oil Companies Limited	Various	
November 16, 1962	Streetsville Fuels Ltd.	Streetsville, Ontario	
April 11, 1963	Finnie Fuels	Peterborough, Ontario	
May 1, 1963	Green's Fuels Limited	Ottawa, Ontario	
		Arnprior, Ontario	
June 1, 1963	Tulloch & Stephen Fuel Oil Limited	Toronto, Ontario	
July 4, 1963	Jean-Paul Plouffe	St. Agathe-des-Monts, Quebec	
July 10, 1963	Philips Fuel Ltd.	Gatineau, Quebec	
August 15, 1963	Arrow Kirk Coal & Oil Co. Ltd.	Vancouver, British Columbia	
August 16, 1963	Perry Fuels Ltd.	Napanee, Ontario	
October 25, 1963	James Buchanan	Willowdale, Ontario	
November 1, 1963	Joseph Dolan & Sons Limited	Ottawa, Ontario	
December 10, 1963	Guy Gaudreau Enrg.	Magog, Quebec	
December 16, 1963	C.W. Biggs Limited	Burlington, Ontario	
December 16, 1963	Menzies Service Ltd.	Vancouver, British Columbia	
December 20, 1963	Kitimat Builder's Supplies Ltd.	Kitimat, British Columbia	
January 6, 1964	Cliche & Dutil	Lac Megantic, Quebec	
January 23, 1964	Phillippe Gosselin (Lévis) Inc.	Lévis, Quebec	



Shell Canada Limited — Profile of Acquisitions

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>(Fuel Oil Marketers)</u>		<u>Activities Engaged In</u>
		<u>Geographical</u>	<u>Market Served</u>	
February 3, 1964	John Corriveau Limitée	Shawinigan, Quebec		
March 29, 1964	Adhemar Rainville	St. Jean, Quebec		
April 1, 1964	Harold R. Baxter	Cobourg, Ontario		
May 12, 1964	Livingstone Fuels	St. Catharines, Ontario		
June 30, 1964	Howard Black Limited	Lindsay, Ontario		
July 24, 1964	Laberge Lumber & Supply Company Ltd.	Sudbury, Ontario		
July 24, 1964	O.J. Bertrand & Son Ltd.	Leamington, Ontario		
August 6, 1964	C.R. McGlynn	Teeswater, Ontario		
October 16, 1964	Keefe Oil Limited	New Brunswick		
October 31, 1964	James Richardson & Sons Ltd. ("Osterhout Fuels")	Belleville, Ontario		
November 2, 1964	British-American Construction & Materials Limited	Winnipeg, Manitoba		
February 10, 1965	Ralph E. Murfin ("Murfin Oil Sales")	Toronto, Ontario Georgetown, Ontario		
March 17, 1965	Albert Hewitt	Hamilton, Ontario		
March 31, 1965	Alexander McManus	Salt Spring Island, B.C.		
May 7, 1965	Alex Von Ploennies	Gravenhurst, Ontario		
June 4, 1965	Pinehill Fuel Oil (Div. of Pinehill Lumber Co. Ltd.)	Copper Cliff, Ontario		
September 24, 1965	Wolfman's Fuels & Cartage Ltd.	Winnipeg, Manitoba		
October 4, 1965	Clare D. Fraser	Brantford, Ontario		
November 1, 1965	Jean Newton ("Newton Fuels")	New Liskeard, Ontario		
November 20, 1965	North Shore Petroleum Products Inc.	Sept-Isle, Quebec		
December 1, 1965	Donald McLellan	Brantford, Ontario		
January 28, 1966	Taricani Fuels Ltd.	Espanola, Ontario		

Shell Canada Limited — Profile of Acquisitions

(Fuel Oil Marketers)

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
February 1, 1966	E.J. Chartier et Fils Inc. (Div. of Chauffage Laurentien, Inc.)	St. Hyacinthe, Quebec	
February 24, 1966	Total Fuels Ltd.	Summerside, P.E.I.	
February 28, 1966	Valley Heating Oils of Alberni Limited	Port Alberni, British Columbia	
February 28, 1966	Ed Kormilo, Sand & Gravel (Fuel Oil Division)	Lockport, Manitoba	
February 29, 1966	Kenneth V. Dawson	Leamington, Ontario	
March 14, 1966	Les Entreprises J.P.E. Ltée	Montreal, Quebec	
July 15, 1966	Welsh Fuel Company Ltd.	Brantford, Ontario	
August 3, 1966	MacDonald-Howell Fuels Ltd.	Brantford, Ontario	
September 7, 1966	R. Thiessen	Vineland, Ontario	
September 30, 1966	Rideau Fuel Oil Ltd.	Vanier, Ontario	
October 4, 1966	Glenn Lasby	Guelph, Ontario	
October 4, 1966	James H. Oakes	Guelph, Ontario	
October 14, 1966	Plecan Fuels Ltd.	Hamilton, Ontario	
October 18, 1966	Ford Ice and Fuel	Hamilton, Ontario	
October 21, 1966	North Winnipeg Co-operative Limited	Winnipeg, Manitoba	
November 1, 1966	Harry M. Gibson	Virgil, Ontario	
November 15, 1966	L.G. Phinney	Trenton, Ontario	
December 19, 1966	Paul S. Desautels Inc. <sup>(1)</sup>	Arvida, Quebec	
December 28, 1966	Mount McKay Feed Company Ltd.	Fort William, Ontario	
January 15, 1967	Mathieu Inc.	Victoriaville, Quebec	
March 15, 1967	Davidson-Austin Petroleum Products Limited	Newmarket, Ontario	
March 31, 1967	A. de Vleeschouwer	La Salette, Ontario	

<sup>(1)</sup> Acquired through Chauffage Laurentien Inc.

Shell Canada Limited — Profile of Acquisitions

(Fuel Oil Marketers)			<u>Activities Engaged In</u>	
<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>		
April 26, 1967	Frank Rosendaal (Proprietor)	Transcona, Manitoba		
May 8, 1967	The Albert Quait Co. Ltd.	Thamesford, Ontario Ingersoll, Ontario		
June 15, 1967	A. Methot Inc.	Valleyfield, Quebec		
June 22, 1967	J.A. Germain Enrg.	Ancienne Lorette, Quebec		
June 28, 1967	Better Heating Ltd.	Hamilton, Ontario		
September 1, 1967	Edco Petroleum Ltd. <sup>(1)</sup>	Montreal, Quebec		
September 1, 1967	Haney Fuels (A.E. Thom)	Haney, British Columbia		
September 14, 1967	Murdoch Fuels Ltd.	St. David's, Ontario		
September 15, 1967	Thomas Scarlett	Harriston, Ontario		
September 15, 1967	Gordon Rabb	Harriston, Ontario		
September 25, 1967	Morley Jackson	Chatham, Ontario		
September 25, 1967	Patrick Doughty	Chatham, Ontario		
September 26, 1967	R.J. Mavis	Powell River, British Columbia		
October 11, 1967	Y. Labelle	St. Jerome, Quebec		
October 24, 1967	Victor's Petroleum Reg'd.	Val D'Or, Quebec		
October 30, 1967	Milton J. Thomas	Elora, Ontario		
November 30, 1967	Morley Harris ("Flambord Fuels")	Freelton, Ontario		
December 1, 1967	Burns McKenzie Fuels Ltd.	Tillsonburg, Ontario		
December 15, 1967	William Maahs	Massey, Ontario		
December 22, 1967	Edward Mitchell ("Mitchell Fuels")	Simcoe, Ontario		
January 19, 1968	O'Neill Fuels Ltd.	Markham, Ontario		
March 1, 1968	Markwick Fuels	Transcona, Manitoba		
March 13, 1968	Frank Mills Ltd.	Alvinston, Ontario		
March 19, 1968	Don Gordon	Atwood, Ontario		

<sup>(1)</sup> Acquired through Chauffage Laurentien Inc.



## Shell Canada Limited — Profile of Acquisitions

(Fuel Oil Marketers)

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
March 21, 1968	Cecil F. Reid ("Cecil Reid Fuels")	Belleville, Ontario	
April 15, 1968	Roy Huras	Sebringville, Ontario	
April 15, 1968	John O'Donovan	Stratford, Ontario	
April 16, 1968	Delta Services Inc.	Sherbrooke, Quebec	
May 28, 1968	J.M. Wallace & Sons Ltd.	Midland, Ontario	
May 29, 1968	Gratton Oil Inc.	Roxboro, Quebec	
July 31, 1968	Skillings Brothers	Vancouver, British Columbia	
September 25, 1968	Lloyd Osborne	Chatham, Ontario	
October 17, 1968	Cutler Fuels	Guelph, Ontario	
November 22, 1968	Niagara Packers Ltd.	Grimsby, Ontario	
December 4, 1968	C. Kropf ("Kropf Fuels")	Kitchener-Waterloo, Ontario	
December 4, 1968	Emil Royer	Warwick, Quebec	
February, 1969	Maurice Gendron	St. Hyacinthe, Quebec	
March 13, 1969	C.W. Jessop	Schomberg, Ontario	
April 8, 1969	John S. Gray	Beeton, Ontario	
April 30, 1969	R.A. Carson & Son	Gorrie, Ontario	
June 10, 1969	Jack Pells (Proprietor)	Fort Garry, Manitoba Charleswood, Manitoba	
July 22, 1969	W.J. Dawson Ltd.	Hamilton, Ontario	
September 1, 1969	Pacific Fuel Oils Ltd.	Vancouver, British Columbia	
September 30, 1969	J.F. McClintock	Kitchener, Ontario	
October 12, 1969	St. Pierre et Frère Cie. Ltée.	Trois-Rivières, Quebec	
November 3, 1969	R.C. Barwise Limited	Charlottetown, P.E.I.	
November 3, 1969	John W. Skinner Limited	Murray Harbour, P.E.I.	
November 3, 1969	Keith Pearson ("Keith Pearson Fuels")	Woodstock, Ontario	
November 4, 1969	A. Freeman	Woodstock, Ontario	
November 18, 1969	Kitchener Coal Co. Ltd.	Kitchener, Ontario	

Shell Canada Limited — Profile of Acquisitions

(Fuel Oil Marketers)

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
December 22, 1969	Stormes Brothers Ltd.	Port Stanley, Ontario	
August 31, 1970	Island Freight Company Limited	Scarborough, Ontario	
September 15, 1970	M.E. Snyder	Kitchener-Waterloo, Ontario	
October 2, 1970	Albert L. Thomas	Charlottetown, P.E.I.	
October 6, 1970	Pearson Bros. Ltd.	Bath, New Brunswick	
October 16, 1970	H.D. Frank	Kitchener-Waterloo, Ontario	
November 30, 1970	J.B. Marshall ("Marshall Fuels")	Parry Sound, Ontario	
December 18, 1970	George Baldwin & Son Ltd.	Lindsay, Ontario	
February 22, 1971	Huebner Fuels	Kitchener, Ontario	
February 26, 1971	Union Oil Limited	Halifax/Dartmouth, N.S.	
March 19, 1971	Harbour Oils Ltd.	Sydney, Nova Scotia	
July 14, 1971	Vernet Still	Stoney Creek, Ontario	
July 19, 1971	Léger Hébert	Quebec City, Quebec	
September 10, 1971	Hewson and Son (1965) Ltd.	Grimby, Ontario	
November 12, 1971	Harry Williams ("Williams Fuels")	Clinton, Ontario	
December 15, 1971	F.G. Henry	Sooke, British Columbia	
January 20, 1971	Gaston McNeil	Lévis, Quebec	
January 28, 1972	Top-Notch Feeds, Limited	Milverton, Ontario	
April 30, 1972	A. Bourassa Ltd.	Cloverdale, B.C.	
May 10, 1972	Alex Inkley	Clinton, Ontario	
May 24, 1972	Jack Arthurs Agency	Harriston, Ontario	
August 12, 1972	Brown Fuel Company	Fonthill, Ontario	
August 31, 1972	F.G. Skillings & Sons Co. Ltd.	Nanaimo, British Columbia	
August 31, 1972	McLaughlin Coal & Supplies Ltd.	Oshawa, Ontario	
November 28, 1972	Glen Scott Fuels Ltd.	Stittsville, Ontario	
December 13, 1972	Ronald W. Potter	Langton, Ontario	
January 30, 1973	Joseph R. Brown (Fuels) Ltd.	Dutton, Ontario	

Shell Canada Limited — Profile of Acquisitions

<u>(Fuel Oil Marketers)</u>		<u>Activities Engaged In</u>
<u>Date of Acquisition</u>	<u>Company Acquired</u> <u>Geographical Market Served</u>	
February 7, 1973	Sarvice Limited	Chatham, Ontario
February 15, 1973	J.P. St. Cyr	Joliette, Quebec
March 26, 1973	Painter's Acme Fuel Ltd.	Victoria, British Columbia
April 13, 1973	Fred A. Fisk	Bowmanville, Ontario
June 7, 1973	Douglas Brock Fuels	Arkona, Ontario
June 27, 1973	Graham's Oil Delivery	Saint John, New Brunswick
July 31, 1973	Donald Eddy	Scotland, Ontario
July 31, 1973	Clarence Hearn	St. Thomas, Ontario
May 15, 1974	Konopka Fuels Ltd.	Toronto, Ontario
May 30, 1974	Claud Fugaro	Aylmer, Ontario
June 27, 1974	Russell C. Woosnam	Thorndale, Ontario
September 3, 1974	O. Van Barnveld	Duncan, British Columbia
		Cowichan Bay, British Columbia
April 28, 1975	Victoria Van & Storage Co. Ltd.	Victoria, British Columbia
April 28, 1975	Shade Bros. Distributors Ltd.	Victoria, British Columbia
July 2, 1975	Deviney Fuel Company	London, Ontario
October 24, 1975	Jeffery C. Phillips Limited	Staffordville, Ontario
December 22, 1975	R. Beauregard	St. Jean, Quebec
		Henryville, Farnham, Quebec
December 31, 1975	Romeo Doucet ("Doucet Fuels")	Bathurst, New Brunswick
February 4, 1976	Grant & McGaughy Stove & Fuel Oils	Woodstock, New Brunswick



Shell Canada Limited — Profile of Acquisitions

(Fuel Oil Marketers)

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
May 29, 1950	B.A. Saskatchewan Pipe Line Limited	Moose Jaw, Saskatchewan	Crude Oil Transportation Pipeline
1950	Anglo-Canadian Oils Limited	Brandon, Manitoba	Refining, Marketing
September 25, 1953	British American Tankers Limited		
November 29, 1954	Glen Park Gas Pipe Line Company Limited	Glen Park-Bonnie Glen, Alberta	Gas Transportation Pipeline
1955	Great West Distributors Limited	Calgary, Alberta	Marketing Petroleum Products
May 15, 1956	Cashin and Company Limited	Newfoundland	Marketing Petroleum Products
May 15, 1956	Cashin Oils Limited	Newfoundland	
June 4, 1956	Britamoil Pipe Line Company Limited	Alberta	Crude Oil Transportation Pipeline
June 30, 1956	Canadian Gulf Oil Company	Western Canada	Exploration, Production
February 27, 1957	Producers Pipelines Ltd.	Saskatchewan	Crude Oil Transportation Pipeline
January 16, 1959	Alberta Underground Storage Limited		
January 29, 1959	Carnduff Gas Limited	Carnduff, Saskatchewan	Gas Gathering System
June 2, 1959	British American (Quebec) Inc.		
November 10, 1959	Canadian Petroleum (1959) Limited	Montreal, Quebec	
November 11, 1959	Lemoyne Oil Co. Ltd.	Montreal, Quebec	
November 11, 1959	National Petroleum Inc.	Montreal, Quebec	
December 1, 1959	Ideal Petroleum (1959) Ltd.	Montreal, Quebec	Marketing Petroleum Products
1960	Globe Oil Company of Canada, Limited	Ottawa, Ontario	Marketing Petroleum Products
February 28, 1961	Flash Petroleums Limited	Ontario	Marketing Gasoline, Fuel Oil
August 11, 1961	Rimbey Pipe Line Co. Ltd.	Alberta	Product Transportation Pipeline
September 20, 1961	Sanford Oils Limited	Alberta	Marketing Petroleum Products
	Super Market Oils	Alberta	
December 21, 1961	Daval Petroleums Limited	Ontario, Prairies	Marketing Gasoline
March 6, 1962	Cansulex Limited	Export	Marketing Sulphur

Shell Canada Limited — Profile of Acquisitions

(Fuel Oil Marketers)			<u>Activities Engaged In</u>	
<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>		
May 17, 1962	Canadian Helium Limited	Canada	Production & Sale Helium Gas	
October 22, 1962	Anglo American Exploration Ltd.	Western Canada	Marketing Petroleum Products	
December 14, 1962	Superior Propane Limited	Canada	Marketing Propane Gas	
December 31, 1962	Royalite Oil Company, Limited Valley Pipe Line	Western Canada Turner Valley, Jumping Pound, Calgary, Alberta	Fully Integrated Oil Company Crude Oil, Natural Gas Transportation Pipeline	
December 31, 1962	Mid-Saskatchewan Pipe Line Saskatoon Pipe Line	Coleville, Saskatchewan Milden-Saskatoon, Saskatchewan	Crude Oil Transportation Pipeline Product Transportation Pipeline	
May 10, 1963	Northwest Terminals Ltd.	Alaska	Petroleum Product Storage	
July 29, 1963	Henderson Thriftway (1963) Limited	Manitoba	Marketing Gasoline	
December 31, 1963	Purity 99 Oil Ltd.	Western Canada	Marketing Petroleum Products	
April 21, 1964	Sentinel Heating Service Limited	Ontario	Marketing Fuel Oil, Climate Control Equipment	
June 15, 1964	E. Bureau & Cie. Ltée.	Quebec	Own & Lease Marketing Facilities	
August 12, 1964	St. Lawrence Fuel Co. Ltd.	Quebec	Marketing Fuel Oil	
December 2, 1964	Parfield Oils (1952) Limited	Ontario	Marketing Gasoline, Fuel Oil	
January 14, 1965	Seventy-Seven Oil Company Limited	Alberta	Marketing Petroleum Products	
May 1, 1965	Syncrude Canada Ltd. Adams & Pipe Limited Miller Oil Company Brantford Limited	Alberta Ontario Brantford, Ontario	Oil Sands Research & Recovery Holding Company Marketing Fuel Oil	
August 18, 1965	Gunning Gasoline Markets Limited	Ontario	Marketing Gasoline	
May 1, 1966	Gunning Oil Ltd. Paradis Spécialité Inc. Paragaz Inc.	Ontario Quebec Quebec	Marketing Petroleum Products Marketing Gasoline Marketing Gasoline	
December 31, 1966	Flash Petroleums (1966) Limited	Ontario		
April 30, 1967	Pétroles Lion Fuels Inc.	Quebec	Marketing Petroleum Products	
June 1, 1967	Big "H" Gas & Oil Limited	Ontario	Marketing Gasoline, Fuel Oil	

<u>Gulf Canada Limited — Profile of Acquisitions</u>			
<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
November 6, 1967	B.A. Home Comfort Limited	Ontario	Marketing Fuel Oil Climate Control Equipment
December 13, 1967	British American Oil Holdings Limited	Western Canada	Exploration, Production
December 10, 1968	Venport Tankers Limited	Canada	Own & Lease Oil Tankship
December 31, 1968	Gulf Canada Home Comfort Limited	Eastern Canada	Marketing Fuel Oil, Climate Control Equipment
December 31, 1968	Gulf Oil Canada Operations Limited	Canada	Exploration, Production
December 31, 1969	British American Transportation Ltd.	Canada	Own & Lease Oil Tankship
May 12, 1970	Fernand Perron Limited	Quebec	Marketing Gasoline, Fuel Oil
December 31, 1970	Canadian Petroleum (1970) Limited	Canada	
December 31, 1970	Gulf Alberta Pipe Line Company Limited	Alberta	
December 31, 1970	St. Lawrence Fuel (1970) Inc.	Quebec	
December 31, 1970	Stellarene Oil of B.C. Ltd.	B.C.	
January 7, 1971	Murdoch's Farm Service Limited	Ontario	Marketing Gasoline, Fuel Oil
January 12, 1971	Alberta Products Pipe Line Ltd.	Alberta	Product Transportation Pipeline
November 22, 1971	Northern Appliances Ltd.	Canada	Dormant
	Pyrofax Gas Limited	Quebec, Ontario	Marketing Propane Gas
December 17, 1971	Perron Frères Limitée	Ontario	Marketing Petroleum Products
December 31, 1971	Gulf Saskatchewan Pipe Line Limited	Saskatchewan	
December 31, 1972	Central Pipeline Company, Limited	Ontario	Marketing Propane Gas
December 5, 1974	Beaufort-Delta Oil Project Ltd.	Alberta, N.W.T.	Proposed Crude Oil Transportation Pipeline



Gulf Canada Limited — Profile of Acquisitions

(Fuel Oil Marketers)

<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
February 28, 1961	Flash Petroleum Limited	Ontario	
September 20, 1961	Sanford Oils Limited	Alberta	
October 31, 1961	Crystal Oil Limited	New Brunswick	
October 22, 1962	Anglo American Exploration Ltd.	Western Canada	
December 31, 1962	Royalite Oil Company, Limited	Western Canada	
October 1, 1963	Newfoundland Oil Company Limited	Newfoundland	
December 31, 1963	Purity 99 Oil Ltd.	Western Canada	
April 21, 1964	Sentinel Heating Service Limited	Ontario	
June 15, 1964	E. Bureau & Cie. Ltée.	Quebec	
	St. Lawrence Fuel Co. Ltd.	Quebec	
August 12, 1964	Parfield Oils (1952) Limited	Ontario	
December 2, 1964	Seventy-Seven Oil Company Limited	Alberta	
May 1, 1965	Adams & Pipe Limited	Ontario	
	Miller Oil Company	Ontario	
	Brantford Limited	Ontario	
August 18, 1965	Gunning Gasoline Markets Limited	Ontario	
	Gunning Oil Ltd.	Ontario	
May 26, 1966	St. Lawrence Fuel Inc.	Quebec	
August 16, 1966	Morrow Fuel Oil Sales Ltd.	British Columbia	
January 1, 1967	Daico Inc.	Quebec	
April 30, 1967	Pétroles Lion Fuels Inc.	Quebec	
June 1, 1967	Big "H" Gas & Oil Limited	Ontario	
November 6, 1967	B.A. Home Comfort Limited	Ontario	
December 31, 1968	Gulf Canada Home Comfort Limited	Eastern Canada	
October 22, 1969	Norm McLeod Ltd.	British Columbia	
November 12, 1969	Ball Fuels Ltd.	Ontario	
May 12, 1970	Fernand Perron Limited	Quebec	

<u>Gulf Canada Limited — Profile of Acquisitions</u>			
(Fuel Oil Marketers)			
<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
January 7, 1971	Murdock's Farm Service Limited	Ontario	
September 1, 1971	Geo. P. Harris Limited	Ontario	
December 17, 1971	Perron Frères Limitée	Ontario	

<u>Texaco Canada Limited — Profile of Acquisitions</u>			
<u>Date of Acquisition</u>	<u>Company Acquired</u>	<u>Geographical Market Served</u>	<u>Activities Engaged In</u>
May 19, 1955	Federated Pipe Lines Ltd.	Alberta	Crude Oil Transportation Pipeline
August 24, 1955	Norfolk Oil Limited	Delhi, Ontario	
December 31, 1956	Regent Refining (Canada) Limited	Various	Refining, Marketing
October 24, 1958	Mapletex Limited	Montreal, Quebec	
December 1, 1958	Tolhurst Oil Limited	Montreal, Quebec	
December 1, 1958	Heaters Limited	Montreal, Quebec	
January 1, 1960	John Heney & Son Limited	Toronto, Ontario	
April 1, 1960	The Great Eastern Oil & Import Co. Ltd.		
November 29, 1960	McColl-Fontenac Oil Company (1960) Limited	Various	
September 13, 1961	J.E.A. Ranger Petroleum Limited	Ville de Lemoyne, Quebec	Marketing Gasoline, Fuel Oil
July 28, 1961	Tex-Park Limited	Halifax, Nova Scotia	
October 31, 1962	Independent Petroleum Corporation	Montreal, Quebec	Marketing Gasoline, Fuel Oil, Other
September 29, 1967	Prima Oil Co. Ltd.	Jonquière, Quebec	Marketing Gasoline, Fuel Oil
January 12, 1971	Alberta Products Pipe Line Ltd.	Edmonton-Calgary, Alberta	Product Transportation Pipeline



Texaco Canada Limited — Profile of Acquisitions			
Date of Acquisition	Company Acquired	Geographical Market Served	Activities Engaged In
July 14, 1961	T. & L. Electric Limited	Sudbury, Ontario	
September 13, 1961	J.E.A. Ranger Petroleum Limited	Ville de Lemoyne, Quebec	
October 31, 1962	Independent Petroleum Corporation	Montreal, Quebec	
February 28, 1963	The Elias Rogers Company Limited	Toronto, Ontario	
October 3, 1966	Public Fuel Transmission Systems Limited	Ottawa, Ontario Toronto, Ontario Montreal, Quebec	
June 1, 1967	Vesuvio Fuel Oil Co. Limited <sup>(1)</sup>	Toronto, Ontario	
September 29, 1967	Prima Oil Co. Ltd.	Jonquière, Quebec	
November 1, 1968	Lorne Lockwood Limited	Brighton, Ontario	
January 2, 1969	Paul Corbeil & Frères Inc. <sup>(2)</sup>	St. Jérôme, Quebec	
September 22, 1969	Champion Fuels (Sudbury) Limited	Sudbury, Ontario	
January 5, 1970	E.J. Chartier Inc.	Quebec City, Quebec	
August 24, 1970	Independent Petroleum Limited <sup>(2)</sup>	Quebec	

<sup>(1)</sup> Acquired through the Elias Rogers Company Limited.

<sup>(2)</sup> Acquired through Tolhurst Oil Limited (Tolhurst Petroleum Limited).

## **GLOSSARY OF TERMS**





## GLOSSARY OF TERMS

**AFRA:** Average Freight Rate Assessment. AFRA is the best known member of a family of computed crude oil tanker rates. It is the weighted average of all charters in force during a given period. This includes all spot charters fixed during that period, as well as all consecutive voyage charters and time charters in effect.

**Allowance:** A reduction granted by the supplier in the normal wholesale price paid by a branded dealer for gasoline. Allowances are generally granted to selected dealers on a temporary basis, with the amount of the subsidy or allowance payment tied to the dealer's retail price. While on allowance, a dealer establishes his own retail pump price and the allowance schedule paid by the oil company compensates the dealer if he reduces his retail price with a corresponding, although not normally equivalent, reduction in his wholesale price.

**API:** American Petroleum Institute. The API scale is used worldwide to compare the specific gravity of crude oils. See Gravity.

**Arm's-Length Transaction:** A buy/sell arrangement completed on the open market between two non-affiliated firms, as opposed to the transfer of goods and services between divisions of a vertically integrated company. See Transfer Price.

**Barrel:** Thirty-five (35) Imperial gallons or forty-two (42) U.S. gallons. The standard unit of measurement of liquids in the petroleum industry.

**Base Crude:** In Canada, the type of crude oil, measured in terms of gravity and sulphur content, that was used as a reference point in establishing the relative prices of other crudes. The base crude was the numeraire crude type.

**BBL.:** Barrels.

**B/CD:** Barrels per calendar day.

**Branded Dealer:** A retail dealer selling petroleum products under the brand name of one of the major oil companies.

**Cartel:** An arrangement among manufacturers to control production in a collusive fashion in order to secure monopolistic prices or other benefits for themselves that competition would not permit.

**CIF:** Cost, insurance and freight, or charged-in-full. The valuation of commodities including all transport costs and insurance to destination.

**Coking:** An intermediate refining process designed to upgrade a crude oil with a relatively high carbon content (heavy crude oil) and produce a product with a higher proportion of hydrogen. The coking process removes carbon in the form of petroleum coke.

**Commercial and Industrial Market:** Commercial and industrial enterprises, including governments and public institutions, that directly consume petroleum products.

**Condensates:** A by-product of the production of natural gas. They exist as a gas in a reservoir and condense as the pressure of the gas is reduced during production. Condensates are used as a refinery feedstock to produce gasoline, jet fuel, LPGs and ethylene base derivatives.

**Consignment:** A practice whereby gasoline is supplied to a branded dealer for resale, but with title to the gasoline remaining in the hands of the oil company. Under consignment arrangements the oil company is able to set the dealer's retail pump price directly, with the dealer assuming the status of an agent and being paid a commission for each gallon sold.

**Conventional Full-Service Outlet:** A gasoline retail outlet that provides a range of sales and services related to motor vehicles. These outlets sell tires, batteries, and accessories (TBA) and other motor vehicle parts and equipment and provide service and mechanical repair facilities.

**c.p.g.:** Cents per gallon.

**Cracking:** Decomposition of a compound, usually a hydrocarbon, by heating. In oil refining, the cracking process breaks down the heavier hydrocarbon molecules into the lighter gasoline and distillate range products. The heavier fuel oil and gas oil distillate fractions are thereby converted to the more valuable gasoline and light distillate stocks. The two principal types of cracking are thermal cracking and catalytic cracking.

**Cracking, Catalytic:** An oil refining process that uses a catalyst to bring about the decomposition of hydrogen compounds at less severe pressure conditions. The catalyst is a substance that is not consumed in the process and which, by its mere presence, promotes decomposition. Platinum, for example, is used as a catalyst in the refining of gasoline.

**Cracking, Thermal:** A refining process that uses heat and pressure to break large hydrocarbon molecules into smaller ones.

**ct.:** Cents.

**Crude Oil:** A naturally occurring complex mixture of components consisting principally of hydrocarbons; that is, compounds and molecules composed of hydrogen and carbon atoms. It is generally believed that these substances were formed millions of years ago from the remains of aquatic plant and animal life. For this reason, oil and natural gas, along with coal, are known as fossil fuels. Crude oil is a liquid, as opposed to a gaseous or solid hydrocarbon deposit. It is not one homogeneous product but a range of substitute products differentiated

by many characteristics from field to field and from pool to pool within a field. The three most important qualities that differentiate crude oils and influence their value are specific gravity, sulphur content, and location. Crude oils are classified by the oil field at which they are produced and sometimes by a particular pool within the field.

**Crude Slate:** The different types of crude oil processed by an individual refinery. For example, some refineries are capable of handling a “crude slate” of some twenty different crudes.

**DCF:** Discounted cash flow. DCF is a capital investment analysis tool used in evaluating the influence of time on the value of flows of revenues and expenses associated with a capital investment. It is based essentially on the idea that the value, to an individual or firm, of a specific sum of money, depends on precisely when it is to be received. The time dimension is captured by adjusting revenues and expenses by discounting — dividing by a suitable discount (interest) rate — to find what the present value of a future sum really is. The result of this procedure will then be a discounted cash flow, on the basis of which the true profitability of the investment can be assessed.

**Development Expenditures:** Drilling costs in an area of already proven oil or natural gas reserves, field gathering systems, and the cost of acquiring proven reserves.

**Diesel Fuels:** Refined petroleum products used as fuel in (automotive, stationary, and marine) diesel engines.

**Distillates, Light:** Refined products used as motor and aviation gasolines, jet engine kerosenes, for general lighting and heating purposes, as well as feedstocks for reforming processes.

**Distillates, Middle:** Refined products used as gas oil, diesel fuel, and for blending with residual products in the preparation of furnace fuels. Distillates used as feedstocks for cracking purposes may also be obtained from the middle distillate range.

**Downstream:** Activities related to the manufacturing and distribution of petroleum products, that is refining, marketing, transportation and petrochemical operations.

**Dry Hole:** A well that does not produce sufficient quantities of oil or gas to be of commercial value.

**EMR:** Energy, Mines and Resources Canada.

**Equalization:** An accounting procedure used when separate crude streams are blended together into a mixed blend stream. The crude that is blended into the mixed stream will be both above and below the average quality of the homogeneous blend delivered downstream. Equalization is the accounting procedure



used to compensate those who received a lower quality of crude than they delivered for blending and to penalize those who delivered a lower quality than is received.

**Exploration:** All activities related to the search for petroleum. Exploration expenditures include all land and lease fees and acquisition costs, geological and geophysical expenditures, and exploratory drilling costs outside a proven oil or gas reservoir.

**Farmout:** An agreement whereby the owner of an exploration lease permits another operator to earn an interest in the lease by carrying out certain work. From the outside operator's point of view, this same agreement is a farmin.

**Field:** An area where oil or natural gas is found. A field includes one or more separate pools or reservoirs. See Pool.

**Feeder Pipelines:** The smaller collector pipelines that join the crude oil fields to the termini of the major east-west trunk pipelines.

**Fixed Costs:** Costs that in the short run do not vary with the rate of output. Such costs — for example, interest, rent, depreciation — are imposed even if no output is produced and are consequently often called overheads. In the long run, by definition, there are no fixed costs; that is, all costs are variable. See Variable Costs.

**FOB:** Free on board. FOB shipping point means the seller will place the goods on board the means of transportation at the shipping point free of charges and the buyer must pay transport costs from that point.

**Foreign Control:** A company is normally considered to be foreign controlled if more than 50 percent of the voting shares are held by non-residents, either directly or through intermediaries, both corporate and other. In some cases, control is based upon the largest block of share ownership, where the remaining shares are widely dispersed.

**Foreign Ownership:** The proportion of the total number of voting shares of a company owned by non-residents either directly or through intermediaries, both corporate and other.

**Forward Market:** A market in which contracts are made to buy or sell commodities, services or securities at some future date at fixed prices. Also referred to as a futures market.

**Fuel Oils:** Refined petroleum products consisting largely or entirely of the residue from the distillation of the more asphaltic crude oils. They are used to produce steam for ships and locomotives, for general heating purposes, and as a fuel in large marine propulsion diesels.

**Fuel Oils, Diesel:** All grades of distillate fuel sold for diesel engine use.

**Fuel Oils, Heavy:** All grades of residual-type fuels (including low sulphur) for both steam and diesel engines; that is, bunker fuel oil, fuel oils #4, #5, #6, and residual fuel oil.

**Fuel Oils, Light:** All distillate-type fuels for power burners; that is, fuel oil #2 (heating oil #2), fuel oil #3 (heating oil #3), furnace fuel oil, gas oils, and light industrial fuel.

**Gas Oil:** Petroleum distillate heavier than kerosene and lighter than lubricating oils. It is used as a fuel for diesel engines, for domestic and industrial heating, and as a feedstock for cracking processes in which it is converted to gasoline.

**Gasoline:** A volatile refined petroleum liquid hydrocarbon which, by its composition, is suitable for use as a carburant in internal-combustion engines to power motor vehicles. Straight-run gasoline is obtained by the fraction distillation of crude petroleum. This is the gasoline naturally contained in the crude oil and consists of a series of consecutive distillates with uniform boiling points. Cracked gasoline is obtained by high temperature and high pressure distillation of heavier components of crude oil. Four grades of motor gasoline are generally recognized: regular leaded, premium leaded, regular unleaded, and premium unleaded.

**Gravity:** A measure of a crude oil's density or weight that reflects the relative amounts of light and heavy hydrocarbons. Gravity is commonly compared using a standard API scale measured in degrees. This scale, used world-wide, is linked to the specific gravity of water, which is equal to 1. For example, a heavy oil with a specific gravity of 0.904 is defined as 25° API. A high gravity crude will generally yield a larger proportion of light products — for example, gasolines and fuel oils — than will a low gravity crude oil.

**H<sub>2</sub>O:** Chemical symbol for a water molecule, which is composed of two hydrogen and one oxygen atoms.

**Heavy Crude:** See gravity.

**HGT:** Host Government Take. Denotes the total share of the wellhead price of crude oil that is payable to the government of the producing country by way of royalty, tax, or surcharge.

**Hydrocarbons:** Substances composed primary of only carbon and hydrogen elements. Hydrocarbons may be gaseous, liquid, or solid at normal temperature and pressure, depending on the number and arrangement of the carbon atoms in their molecules. Those with up to four carbon atoms are gaseous; those with twenty or more are solid; those in between, such as crude oils, are liquid.

**Independent Marketer:** A person or firm engaged in the marketing or distributing of refined petroleum products but who is not affiliated in any way with a refiner or integrated company other than by means of an arm's-length supply contract. An independent marketer is also known as an independent reseller, unbranded marketer, private brand distributor, private brand reseller, or PBD.

**Intascale:** Schedules of tanker rates issued by the International Tanker Nominal Freight Scale Association, Ltd., London between May 1962 and September 1969. Intascale succeeded Scale and preceded Worldscale. Also referred to as IS.

**IS:** See Intascale.

**Jersey:** Standard Oil of New Jersey (now Exxon); the parent company of Imperial Oil.

**Jobber:** A person or firm which purchases refined petroleum products at the wholesale level for the purpose of selling to others who in turn resell to consumers.

**Joint Production:** A process where several products are produced from a single raw material processed in one or more joint facilities. The products are known as joint products. For example, gasolines, fuel oils, and kerosenes are produced as joint products in the crude oil refining process.

**Kerosene:** Prior to the widespread use of the internal combustion engine and the resultant demand for gasoline, kerosene was the most important petroleum product. Currently used as a source of light, in domestic heating and cooking, as a tractor fuel, and as a turboprop and turbojet aviation fuel. Kerosene is sometimes referred to as paraffin oil.

**Lessee Dealer:** An individual who leases a service station from a refiner or wholesaler-supplier and retails gasoline to the public under his supplier's trademark. Typically he provides a variety of minor mechanical services in addition to selling gasoline.

**Light Ends:** The lower-boiling components of a mixture of hydrocarbons; for example, gasoline, light fuel oil.

**Line-Fill:** The number of barrels per day that would have to be put into a pipeline system in order to meet refinery demands.

**LPG:** Liquefied petroleum gas. LPG refers to propane, butane and ethane, and other hydrocarbons found in natural gas that may be extracted or isolated. They are part of a large family of hydrocarbons that includes methane (the principal constituent of natural gas) and heavier compounds such as pentane and octane (constituents of gasoline). LPGs are efficient, clean-burning internal combustion engine fuels and can replace gasoline and diesel fuels in automotive uses. They are also a feedstock for the refining and petrochemical industries and



are injected into oil reservoirs to enhance oil recovery. LPGs are produced in Canada from gas plants (over 75 percent) and oil refineries. They are also known as natural gas liquids.

**Lube Facilities:** Facilities for the production of petroleum based lubricants such as waxes and greases.

**M.C.F.:** Thousand cubic feet.

**Majors:** The largest integrated petroleum companies— operating around the world. The seven largest international oil companies (Exxon, Royal/Dutch Shell, Mobil, Texaco, Standard Oil of California, Gulf, and British Petroleum — and their subsidiaries or affiliates are sometimes referred to as the “Seven Sisters”.

**Margin, Marketing:** The differential between the retail price and the refinery wholesale price of petroleum products. Since the wholesale price differs for independents as opposed to branded dealers, the marketing margin will also differ even if retail prices were the same.

**Margin, Retail:** The margin available to recover the retail costs associated with the sale of refined petroleum products.

**Margin, Wholesale:** The margin available to recover the wholesale costs associated with the sale of refined petroleum products.

**Market Segmentation:** The dividing of a market into two or more submarkets by a firm that provides different offerings, in terms of price and service, to the different submarkets. Market segmentation may be the result of market power.

**MB:** Thousands of barrels.

**MB/D:** Thousands of barrels per day.

**MER:** Maximum efficient rate of production. An engineering method for maximizing the amount of petroleum that can be recovered from a reservoir.

**Mini-Major:** See Regional Major.

**Minor-Major:** See Regional Major.

**Mixed Blend Stream:** A crude oil stream composed of many different types of crude oils from various fields.

**MMB:** Millions of barrels.

**Mogas:** Motor gasoline. All gasoline fuels for use in internal combustion engines other than aircraft.

**Multinational:** A firm that conducts business transactions in more than one country through the use of subsidiary or affiliated companies.

**National Major:** This designation refers to an integrated petroleum company whose activities, especially at the marketing level, can be found in all regions of Canada. In this report it specifically refers to Imperial, Shell, Texaco, and Gulf.

**Natural Gas:** Gaseous forms of petroleum produced at the surface from underground accumulations of widely ranging composition, which may or may not be directly associated with crude oil deposits. Natural gas consists of mixtures of hydrocarbon gases and vapours, the more important of which are methane, ethane, propane, butanes, pentanes, hexanes, and heptanes. It is a ready-made fuel which, after the removal of undesirable constituents such as sulphur compounds and valuable liquid constituents, can be used for many industrial and residential applications.

**Natural Gas Liquids:** Liquified petroleum gas. See LPG.

**NEB:** National Energy Board.

**OAPEC:** Organization of Arab Petroleum Exporting Countries. Founded in 1968 by Kuwait, Libya, and Saudi Arabia. Today OAPEC and Iran control approximately two-thirds of OPEC production. See OPEC.

**Oligopoly:** An industry in which a small number of firms account for a large proportion of production or sales. The essential feature of oligopolies is the high degree of interdependence among firms. The result is that each seller considers the reactions of his competitors when determining his price and output decisions. Oligopolistic industries generally have considerable barriers to entry — such as economies of scale, product differentiation, absolute cost advantages, possession of strategic raw materials, tariff and non-tariff protection, significant capital requirements — that restrict both domestic and import competition.

**OPEC:** Organization of Petroleum Exporting Countries. Established in 1960, its current membership includes Abu Dhabi, Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Venezuela, and Saudi Arabia. Of these eleven countries, six are in the Middle East (Abu Dhabi, Iran, Iraq, Kuwait, Qatar and Saudi Arabia); three in Africa (Algeria, Libya and Nigeria); one is in South America (Venezuela); and one in the Far East (Indonesia). OPEC currently accounts for nearly one-half of world crude oil production.

**Par Crude:** See Base Crude.

**PBD:** Private brand distributor. See Independent Marketer.

**Polymerization:** Certain hydrocarbon molecules lighter than gasoline are combined with similar molecules to produce a high octane gasoline blending stock. In both thermal and catalytic polymerization processes, the reaction is brought about by high temperatures and pressures; however, as in the cracking process, the use of a catalyst allows the process to proceed at less severe temperature and pressure conditions. In a sense, polymerization is the opposite of cracking.

**Pool:** An underground accumulation of petroleum in a single separate natural reservoir. It is separated from adjacent pools by rock, water, or other impermeable barriers. A collection of pools forms a field.

**Posted Price:** A written statement of crude oil prices comprising an offer to sell or buy oil at a specified price at the wellhead that has been circulated publicly among crude oil buyers and sellers in a particular field. The price is based on the seller's assessment of the value of the crude oil in terms of replacement and opportunity costs and its value to buyers. The posted price may or may not equal the actual transaction price.

**Predatory Pricing:** A deliberate temporary and selective low pricing policy used by an established firm or firms to block or delay new entry by smaller firms into specific product or geographic markets or to reduce the rate of growth of existing competitors. The firm pursuing such a strategy expects to be able eventually to raise prices to previous high levels or to maintain an existing market structure in which prices are above competitive levels for longer periods of time than would be possible if competitors were allowed to expand. For predation to be successful, it is not necessary that the rival be actually driven out of business. Successful predation will have taken place if the rate of new entry into a market is slowed or if the smaller firm is forced to comply with the wishes of the established firm in some way — for example by adopting a specific pricing policy or by agreeing to merger terms.

**Present Value:** The present value of a string of benefits or costs arising in different time periods is the equivalent value of these benefits or costs as of the present. It is calculated recognizing that future benefits are less valuable than present ones and should be discounted by the appropriate interest rate to yield the equivalent present value. See Discounted Cash Flow.

**Pribrands:** A term generally used to describe service stations operated by independent marketers; but sometimes used synonymously with second brands.

**Price Discrimination:** A firm engages in price discrimination when it sells an essentially homogeneous commodity at more than one price within a market or markets and the price differentials are not associated with differences in costs for producing or distributing the product.

**Product Differentiation:** The creation of real or imagined differences in essentially a homogeneous product by means of branding, packaging, advertising, quality variation, or design variation. Product differentiation is most prevalent in consumer goods industries.

**Product Yield:** The amount and types of refined products produced by an oil refinery.

**Prorationing:** A system enforced by a government or by agreement among producers to limit the amount of crude oil that can be produced from a specified pool, field, or reservoir within a given period of time. The total allowable output is usually allocated among producers in proportion to the number of wells they



operate. Conservation prorationing prevents production above MER and, therefore, prevents wasteful crude oil production. Market prorationing restricts production to support what would otherwise be an unsustainable crude price.

**Rack:** The truck loading facility at a pipeline, water terminal or oil refinery.

**Rack Price:** The wholesale price, typically set at a terminal or refinery rack, to independent marketers.

**Reforming Cracking:** A high-temperature refinery cracking process that produces high octane gasoline.

**Regional Major:** An integrated petroleum company that confines its activities to certain regions of Canada only. Sometimes referred to as mini-majors or minor-majors. Irving, BP, Sun Oil, Petrofina and Chevron Canada are referred to as regional majors.

**Reseller:** Any firm or person which purchases and resells petroleum products without substantially changing their form.

**Reservoir:** A body of porous material containing an accumulation of crude oil or natural gas.

**Royalty:** A percentage of production an oil company pays to the owner of mineral rights. The owner may be a government or a freehold or lease owner.

**Scale:** Schedules of tanker rates issued by International Tanker Nominal Freight Scale Association, Ltd., London from the end of the Second World War to May 1962. It was succeeded by Intascale and Worldscale.

**Second Brands:** Service stations or networks of service stations operated by the national and regional major oil companies that carry on business under a name other than the well-known brand name of the oil company. Such outlets may be differentiated from the company's branded stations by level of service and price. Sometimes referred to as Pribrands. An example would be the Econo stations operated by Imperial Oil and the Beaver stations operated by Shell.

**SIRV:** Standard Industry Reference Value. A computer model used by Imperial Oil to measure the efficiency of each of its refineries in Canada.

**Sour Crude:** A crude oil with a high sulphur content.

**Special Stream:** A crude oil stream composed of one type of crude oil or a limited number of crude types as opposed to a mixed blend stream.

**Spot Market:** A market in which commodities, services, or securities are traded for immediate delivery, as distinct from the forward market.

**Spot Price:** The price for immediate delivery. See Spot Market.

**Sulphur:** An important impurity contained in crude oils. It is present in different forms in various proportions in almost all crude oils. There is no

advantage whatsoever to their presence as they cause corrosion and hazards in refining operations as well as air pollution. The elimination of sulphur is relatively expensive and the cost of elimination increases directly with the sulphur content. Higher sulphur content means inevitably higher expenses for maintenance, desulphurization, and anti-pollution abatement.

**Sweet Crude:** A crude oil with a low sulphur content.

**Synthetic Crude:** A term that has come to be used in Canada for crude oil produced from the tar sands. Its more general usage refers to the production of a liquid hydrocarbon from a solid hydrocarbon deposit.

**Temporary Allowance:** See Allowance.

**Terminal Operators:** A group of firms that primarily developed by importing refined product through terminus, provided storage facilities and wholesaled the product generally to independent retailers.

**Third Brand:** A type of second brand station usually denoted as a third brand because it priced at the lowest end of the market. See Second Brand. An example would be the Gain stations operated by Imperial Oil.

**T.J.:** Tia Juana. A large Venezuelan oil field which lends its name to several crude oils, eg., T.J. Light, T.J. medium.

**Trade Area:** The market area in which a retail gasoline outlet competes for sales.

**Transfer Price:** A price used for internal sales (transfers) of goods and services between two branches or divisions of a business enterprise. Sometimes called inter-company or intra-company prices. These prices may not necessarily reflect open market values for similar goods or services. In the petroleum industry, transfer pricing occurs when the production division of a vertically integrated firm sells crude oil to the refining division or when the refining division sells refined petroleum products to the marketing division.

**Unbranded:** See Independent Marketer.

**Unitization:** Pooling of reserves by owners of adjoining properties to form a single unit for the operation of the properties. The revenue from operation of the unit is then divided in accordance with the method set forth in the unit agreement. The purpose of unitization is to produce reserves more efficiently. Unitization is particularly important where secondary recovery techniques are employed.

**Upstream:** Activities related to the exploration, development, and production of crude oil and natural gas.

**Variable Costs:** Costs that increase or decrease when the rate of output (or sales) increase or decrease — for example labour costs, raw-material costs, energy costs. Also known as direct costs, prime costs, or operating costs.

**Vertical Integration:** The undertaking by a single firm of successive stages in the process of production of a particular good or service. Vertical integration is a predominant feature of the oil industry where the major firms are engaged in all aspects of the industry— exploration and production of crude oil, transportation of crude oil to refineries, refining, transportation to retail distribution outlets, and ownership of those outlets.

**VLCC:** Very Large Crude Carrier. A crude oil tanker of 200,000 DWT or larger.

**W or WS:** See Worldscale.

**Well, Development:** A well drilled with the expectation of producing from a known productive oil or gas reservoir.

**Well, Exploratory:** A well drilled in unproven or semi-proven territory to find commercial deposits of crude oil or natural gas in a new reservoir.

**Worldscale:** Schedules of tanker rates issued by the International Tanker Nominal Freight Scale Association, Ltd., London since September 1969. It succeeded Scale and Intascale. Rates are calculated by using a hypothetical vessel with a given rate of fuel consumption and other defined characteristics, and a given ship hire, and calculating a total cost per ton for a large number of port-to-port and some multiple port voyages. While an individual rate has little meaning, the whole set of rates is a schedule permitting immediate and fairly precise comparisons of any two or more spot charters.

















